Powering Ahead...

KenGen

Energy for the nation

60th ANNUAL REPORT & FINANCIAL STATEMENTS

Financial Year Ended 30 June 2012

Significant Facts

- Olkaria I & IV 280 MW, largest project financing facility ever in Kenya of US$ 1 billion raised from multiple donors
- The leading power generator in Kenya with 80% market share
- 2.5MW Eburru project utilized in-house expertise, saving Kshs.100m on project management costs
- Largest geothermal producer in Africa
- ISO QMS 9001:2008 and EMS 14001:2004 recertification audits carried out
- Pioneer in Clean Development Mechanism (CDM) project development process in Kenya
- 5 million CERs expected from project portfolio by 2019
- Portable geothermal wellhead pilot successfully commissioned

Power-ful Statistics

• Asset base:	Kshs 163 billion (up 2%)
• Total revenue:	Kshs 17 billion (up 15%)
• Electricity revenue:	Kshs 15 billion (up 11%)
• Profit before tax:	Kshs 4 billion (up 11%)
• Earnings per share:	Kshs 1.28 (up 36%)
• Installed capacity:	1,231 MW (up 5%)
• Employee numbers:	1,829 (up 10%)
• Generated units:	5,497 GWh (up 11%)
• Total power stations:	24 (up 14%)
• Large stations (>=20MW):	14 (constitutes 97%)

Cover: Artistic impression of the 280MW Olkaria IV Power Plant

Contents

Our Promise

KenGen promises to deliver value to our shareholders and quality power to Kenyans. Our discipline is moulded by environment consciousness and promotion of sustainability for posterity.

To help us serve you better, Shareholders are requested to support this promise 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.

Let's partner together to create value for Kenyans from Generation to Generation.

Our Safari

2012
Largest single geothermal power project ever in the world (Olkaria I & IV 280MW) launched

2010
Largest wind plant in Eastern Africa goes online: Ngong 5.1MW

2009
First and largest corporate Public Infrastructure Bond attracts over Kshs. 26 billion

2008
3000MW target launched through "Good-to-Great" Strategy

2006
Successful public listing of 30% shareholding on the Nairobi Stock Exchange

1999
Largest hydro plant in East Africa commissioned: Gitaru 225MW

1997
Kenya Power Company rebranded as KenGen

1981
First 15MW Unit Olkaria I installed KenGen

1968
First hydro plant commissioned on the Tana cascade: Kindaruma 40MW

1954
Kenya Power Company (KPC) incorporated

1952
First geothermal exploration well in Africa drilled at Olkaria

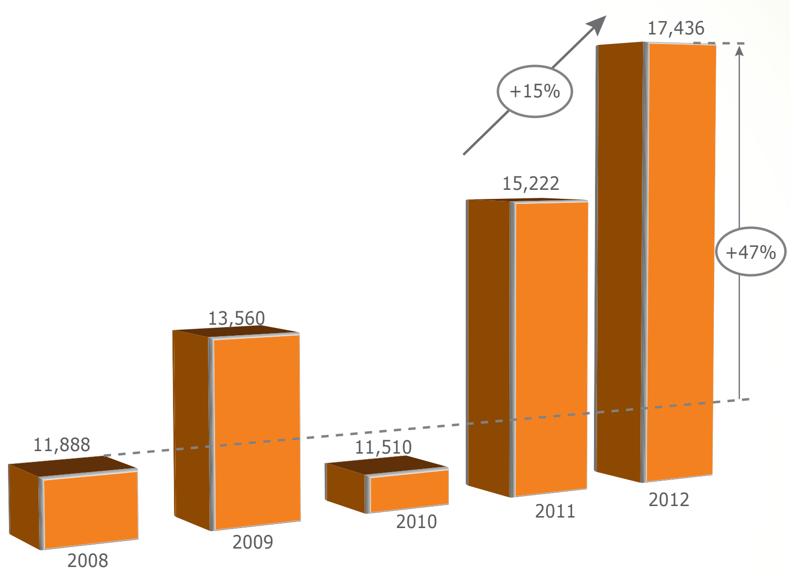
1925
First hydro plant in Kenya put up: Ndula 2MW

1922
East African Power created by merging Nairobi and Mombasa electricity utilities

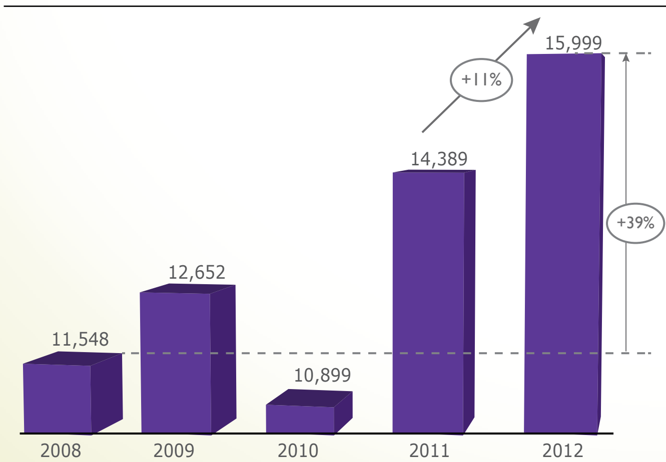
Our Transformation Philosophy

Theme	Relevance
1 "Good to Great"	• Moving from a "Good Company" to a "Great Company" that **creates value** for **all stakeholders** (shareholders, employees, citizens, etc)
2 "Generation to Generation"	• Focus on achieving **sustainability in value creation** from "One Generation" to the "Next Generation"

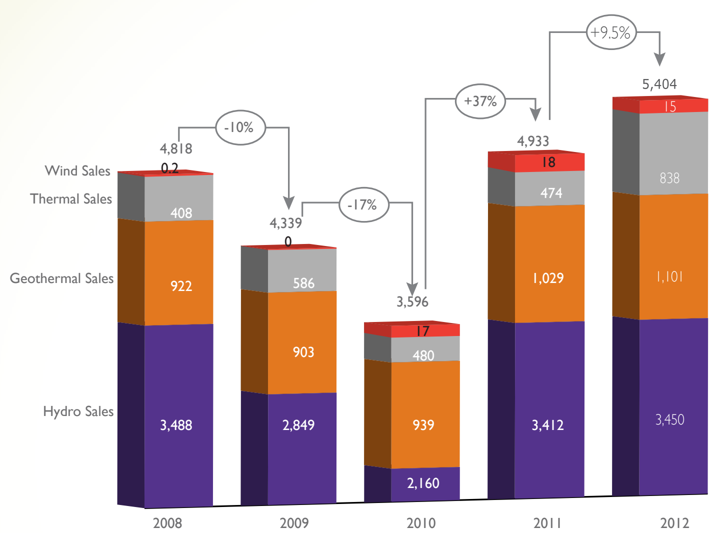
Performance at a Glance



Total Revenue (Kshs. Million)
- Grew by 15% due to increased capacity from newly commissioned power plants
- Marked improvement in electricity sales, interest income and other income



Electricity Revenue (Kshs. Million)
- Grew by 11% driven by increase in electricity generation from 4,933Gwh to 5,404Gwh resulting in growth of energy revenue
- Growth in installed capacity from 1,147MW to 1,231MW resulting in increased capacity revenue

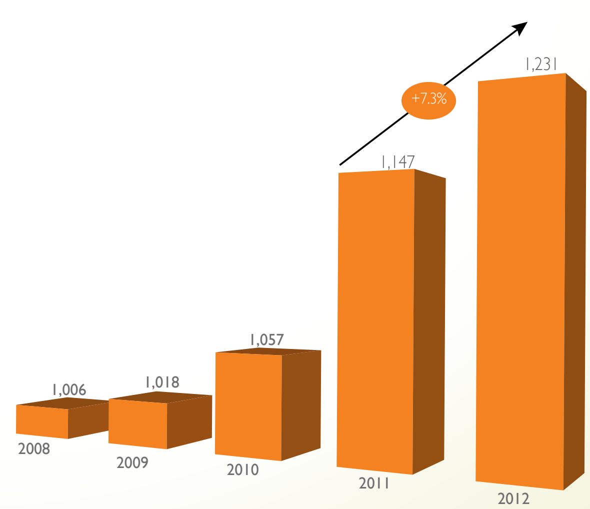


Total Units Sold (Gwh)

- Grew by 9.5%, boosted by completion and comissioning of Kipevu III in the fourth quarter of 2011 since it was in full operation during the year under review
- Geothermal generation grew by 7% after commissioning of pilot Wellhead-5MW and Eburru-2.5MW

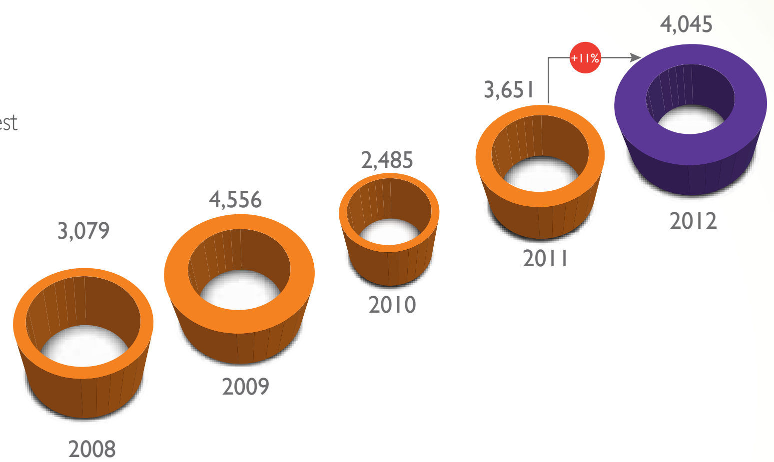
Installed Capacity (MW)

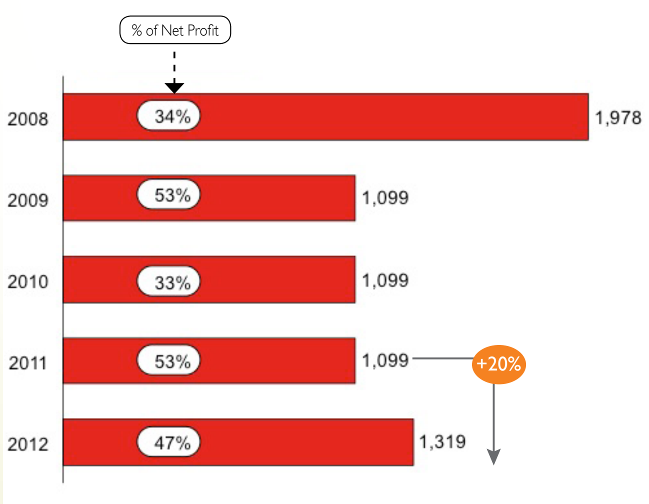
- Grew by 7.3% driven by our expansion and rehabilitation strategy which started in 2005, resulting in the addition of 52.5MW to the national grid during the period under review: Sang'oro-21MW, Kindaruma Unit 3-24MW, Eburru-2.5MW and Wellhead-5MW



Profit Before Tax (Kshs. Million)

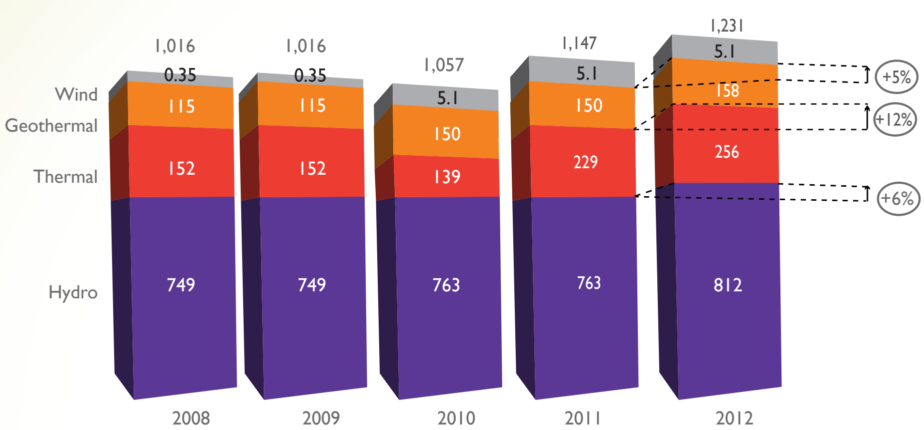
- Grew by 11% mainly due to increased sales interest income, other income as well as operating cost containment





Dividend (Kshs. Million)

- Increased by 20% from Kshs. 0.50 per share in 2011 to Kshs. 0.60 per share in 2012

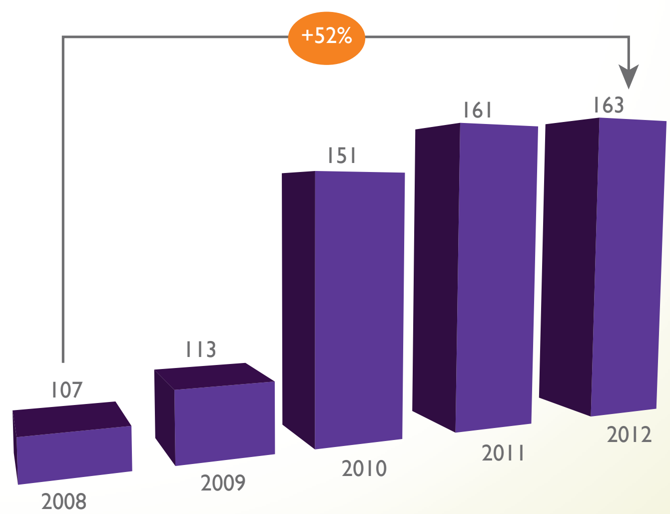


Generation Mix(MW)

- Hydro capacity increased by 6% arising from completion of Kindaruma Unit 3-24MW and Sang'oro-21MW
- Thermal capacity increased by 12% arising from installation of one Unit of the GT which was moved from Kipevu to Embakasi
- Geothermal capacity increased by 4% arising from commissioning of pilot Wellhead-5MW and Eburru- 2.5MW

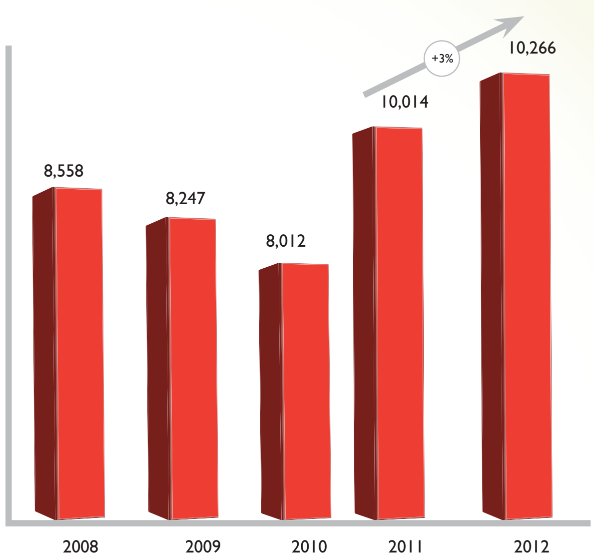
Total Assets (Kshs. Billion)

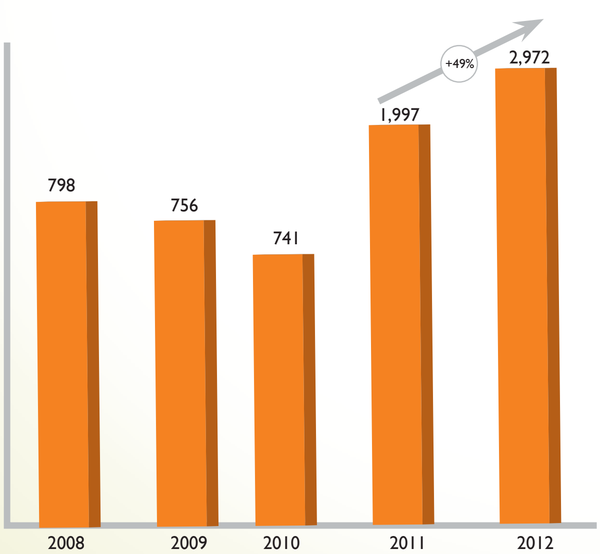
- Total assets grew by 2% during the year under review
- Current assets increased by 17% due to increase in fuel inventory, advanced payments Olkaria I & IV contractors, drilling materials & services given to Geothermal Development Company (GDC)



Operating Cost (Kshs. Milllion)

- Increased marginally by 3% due to cost optimisation measures put in place during the period under review

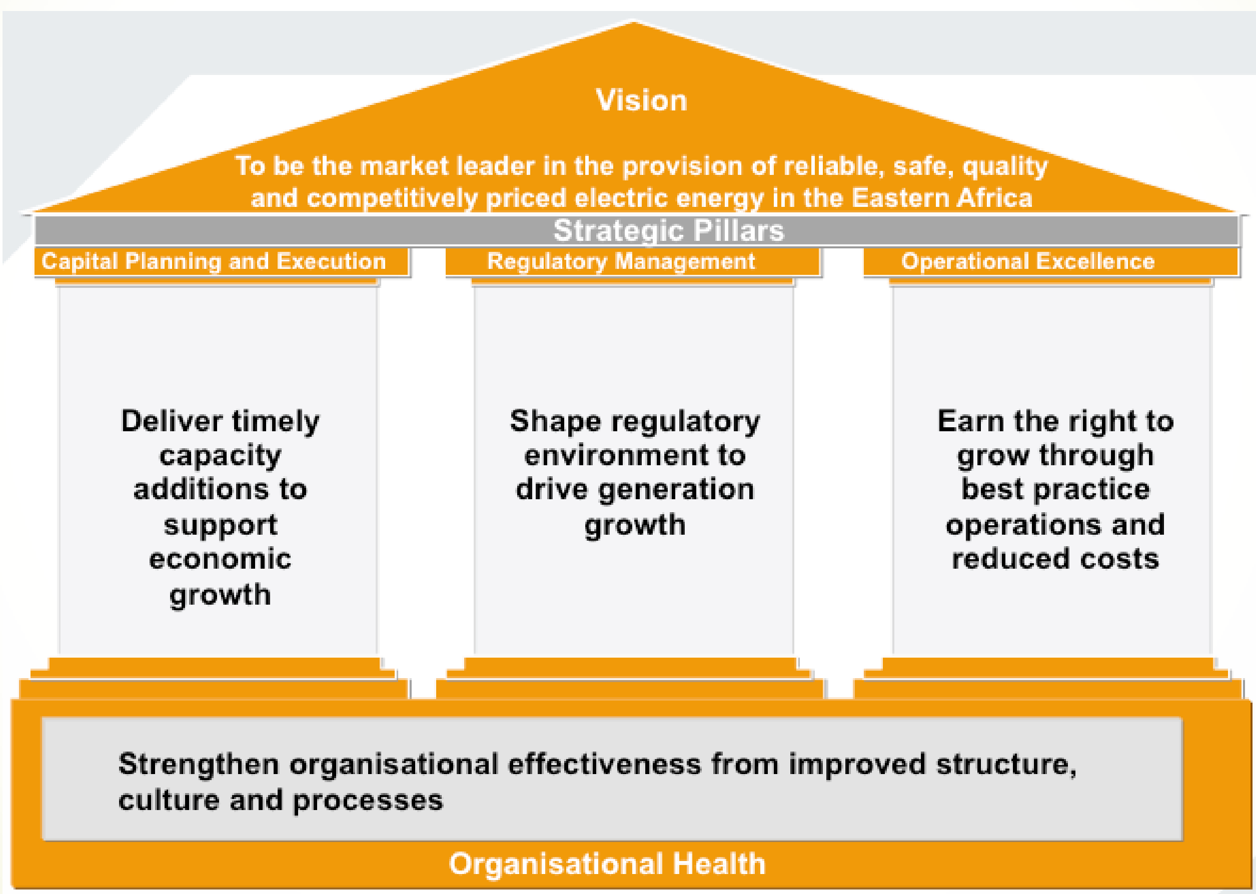




Financing Cost (Kshs. Million)

- Increased by 49% due to interest expense on Public Infrastructure Bond funds and other borrowings for projects commissioned in 2011 and 2012

Our Strategy



Vision, Mission & Core Values

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.

Corporate Information

Directors

Titus Kitili Mbathi	- Chairman
Edward Njoroge	- Managing Director & CEO
Joseph Kinyua	- Permanent Secretary, Treasury
Patrick Nyoike	- Permanent Secretary, Ministry of Energy
Sarah W. Wainaina	
Musa Ndeto	
George M. Njagi	
Dorcas F. Kombo	
Henry N. M'Narobi	
Hedrick Omanwa	
Mary Michieka	
Humphrey Muhu	- Alternate to Joseph Kinyua
John Omenge	- Alternate to Patrick Nyoike

Secretary

Rebecca Miano
Certified Public Secretary (Kenya)
Stima Plaza
P.O. Box 47936 - 00100 GPO, Nairobi

Registrars

Image Registrars Limited
Transnational House
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 & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 40092 00100 GPO, Nairobi

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

Bankers

Barclays Bank of Kenya Limited Naivasha Branch P.O. Box 46661 - 00100 GPO, Nairobi	Kenya Commercial Bank Limited Moi Avenue Branch P.O. Box 24030 - 00100 GPO, Nairobi
CfC Stanbic Bank Limited Kenyatta Avenue Branch P.O. Box 30552 - 00100 GPO, Nairobi	NIC Bank Limited Head Office, Masaba Road P.O. Box 48400 - 00100 GPO, Nairobi
Citibank NA Head Office, Upper Hill P.O. Box 30711 - 00100 GPO, Nairobi	Standard Chartered Bank Kenya Limited Harambee Avenue Branch P.O. Box 30003 - 00100 GPO, Nairobi
Commercial Bank of Africa Limited Wabera Street Branch P. O. Box 30437- 00100 GPO, Nairobi	The Co-operative Bank of Kenya Limited Stima Plaza Branch P.O. Box 48231- 00100 GPO, Nairobi

Olkaria I & IV 280MW Ground-breaking ceremony officiated by
His Excellency Hon. Mwai Kibaki CGH, MP, President and Commander in Chief of the Defence Forces of the Republic of Kenya

Leadership Overview

Leadership is about doing the right things today, to create a better tomorrow. Our goal is to strike the right balance between benefits to our shareholders and customers, vis-à-vis the expectations of the state regulators, to keep electricity costs competitive.

Titus Mbathi, Chairman

Message from the Chairman

"I have no doubt that we are on the path to achieving our goals of making available 3000MW by 2018 to increase access to electric energy and accelerate economic growth. This will be achieved through delivery of least cost projects, growing supply ahead of demand to establish a healthy reserve margin, as well as improving the current energy mix to enhance security of electricity supply.

It is my pleasure to report that KenGen continued to make substantial investments in infrastructure development to meet the country's ever increasing electricity demand and diversify power generation modes as a means to reducing over-reliance on hydro sources, which are subject to adverse weather variations.

We registered growth of 15% in our earnings. This was achieved on the backdrop of a slow global economic growth of 3.8% compared to the previous year's 5%; a situation attributed to rising oil prices in the international markets, euro debt crisis and the implementation of austerity measures in many leading industrial economies.

For its part, Kenya recorded a GDP growth rate of 4.4% in the year 2011, lower than a revised rate of 5.8% in 2010. The dip was as a result of the depreciation of the shilling, sky-rocketing fuel prices and a high inflation rate, which stood at 12.27% at June 2012.

However, it is gratifying to note that we made impressive progress in our effort to expand generation capacity with major contracts being signed with contractors to facilitate fast-tracking of power projects - which include the development of 280 MW of geothermal power in Olkaria - to meet the energy requirements of the Vision 2030 development blueprint.

Further, we continued to pursue our transformation strategy anchored on key focus areas: reducing operational & overhead costs; quick implementation of new capacity; innovation; improving operational & maintenance processes and improving organizational health to increase employee productivity. The strategy is aimed at providing value for shareholders, strengthening the Company's resilience and achieving business sustainability to ensure KenGen thrives "from Generation to Generation".

As part of the effort to increase stakeholder participation in the Company's affairs, we organized a successful tour for three hundred shareholders – selected through a raffle - to our Seven Forks installations. The objective was to enhance their understanding of our operations and strategy, achievements and challenges in order to maximize on their contributions during the annual general meetings and other investor forums. Indeed, I am proud to report that we received positive feedback after the tour and intend to make it an annual event.

We continued to strengthen our relationship with other stakeholders, especially communities neighbouring our installations, through our corporate social responsibility program and the establishment of coordination committees.

In Olkaria, we established a stakeholders' coordination committee tasked with ensuring harmony between KenGen and community concerns, especially during the implementation of geothermal projects.

Once again, KenGen achieved its Performance Contract targets as set out with the Government of Kenya by attaining its operational, financial and strategic goals. With our visionary executive management committee, under the able leadership of the Managing Director & CEO, I have no doubt that we are on the path to achieving our goals of making available 3000MW by 2018 to increase access to electric energy and accelerate economic growth.

This will be achieved through delivery of least cost projects, growing supply ahead of demand to establish a healthy reserve margin, as well as improving the current energy mix to enhance security of electricity supply.

We are aware that great companies are built through ideas and intend to continuously harness the wealth of knowledge and experience of all our staff. We recognize the contribution of our employees in ensuring the Company meets its performance targets. During the period, we enjoyed cordial industrial relations, enabling the Company to meet its operational objectives.

Over the past five years, the Company has maintained a consistent dividend regime. The Board recommends a final dividend of Kshs.0.60 per share amounting to Kshs.1,319million to be paid out to the shareholders. If approved at the annual general meeting, the dividend will be paid out on or about 31st January 2013 to shareholders who appear in the register of members at the close of business on 5th December 2012.

We acknowledge the support of the Government, development partners and other stakeholders as we seek to realize our large-scale financing target of US$ 4 billion to fund our ambitious expansion programme.

My colleagues in the Board and I will continue to provide the necessary oversight and support to propel KenGen to greater heights and meet our obligation to shareholders and all Kenyans.

Hon. Titus K. Mbathi, EGH - Chairman

Ujumbe kutoka kwa Mwenyekiti

Sina shaka kuwa tumo njiani kuafikia malengo yetu ya kuzalisha MW 3000 kufikia 2018 ili kuongeza idadi ya wale wanaotumia nguvu za umeme na kuharakisha ukuaji wa kiuchumi. Hii itafanikishwa kupitia uzinduzi wa miradi ya gharama ya chini, kuzidisha uzalishaji zaidi ya mahitaji, kudumisha viwango vifaavyo vya akiba ya mtaji, pamoja na kuimarisha mbinu za kisasa za uzalishaji umeme ili kuhakikisha kuna umeme wa kutegemewa.

Ni furaha yangu kutangaza kuwa KenGen iliendelea kuwekeza katika ustawishaji wa miundomsingi ili kutosheleza mahitaji ya umeme yanayozidi kuongezeka nchini na kupanua vyanzo vya uzalishaji wa umeme kama njia ya kupunguza utegemeaji mkubwa wa uzalishaji unaotokana na maji, ambayo hutegemea mabadiliko ya hali ya anga.

Tulipata nyongeza ya asilimia 15 ya mapato yetu. Hii ilipatikana kwenye mazingira ya ukuaji wa uchumi uliofifia hadi asilimia 3.8 ikilinganishwa na mwaka uliopita wa asilimia 5, hali iliyotokana na kupanda kwa bei ya petroli katika soko la kimataifa, mzozo wa madeni ya euro na utekelezaji wa hatua za kubana matumizi katika uchumi za mataifa mengi yaliyostawi.

Kwa upande wake, Kenya ilipata ukuaji wa asilimia 4.4 wa jumla ya mapato yake mnamo 2011, chini ya kiwango cha awali cha asilimia 5.8 mnamo 2010. Kudidimia huko kulitokana na kupungua kwa thamani ya shilingi, kuongezeka kwa bei ya petroli na kiwango cha juu cha mfumko wa bei za bidhaa, ambacho kiligonga asilimia 12.27 mnamo Juni 2012.

Hata hivyo, ni jambo la kufurahisha kwamba, tumepiga hatua kwenye jitihada zetu za kupanua uwezo wetu wa uzalishaji umeme huku kandarasi kubwa zikitiwa sahihi na kampuni ili kufanikisha kuharakishwa kwa miradi ya umeme- ambayo inajumuisha ustawishaji wa kiwanda cha kuzalisha MW 280 kutokana na umememvuke cha Olkaria-ili kutosheleza mahitaji ya kawi ya ruwaza ya maendeleo ya 2030.

Isitoshe, Kampuni iliendelea kufuatilia mkakati wetu wa mageuzi uliojikita kwenye nguzo zifuatazo muhimu: kupunguza gharama za utendaji kazi, utekelezaji wa haraka wa miradi ya kuongeza uzalishaji; ubunifu; uimarishaji wa taratibu za utendakazi na utunzaji wa miundomsingi yetu na kuimarisha hadhi ya Kampuni ili kuongeza utendakazi wa wafanyikazi.

Mkakati huu unalenga kutoa thamani kwa wenyehisa, kuboresha ukakamavu wa kampuni na kudumisha utegemeaji wa biashara zetu ili kuhakikisha KenGen inastawi kutoka "Kizazi hadi Kizazi."

Kama sehemu ya jitihada za kuongeza kushiriki kwa washikadau katika masuala ya kampuni, tuliandaa ziara iliyofana ya wenyehisa mia tatu waliochaguliwa kwa njia ya bahati nasibu- kutembelea mitambo yetu katika eneo la Seven Forks.

Lengo lilikuwa kuzidisha ufahamu wao wa huduma zetu na mkakati, ufanisi na changamoto ili kunufaika zaidi na michango yao wakati wa mikutano mikuu ya kila mwaka na vikao vingine vya wawekaji. Ama kweli, nina fahari ya kutangaza kwamba, tulipokea majibu yafaayo baada ya ziara hiyo na tunapanga kuifanya kuwa shughuli ya kila mwaka.

Tuliendelea kuimarisha uhusiano wetu na washikadau wengine, hasa jamii zilizo karibu na vifaa vyetu, kupitia kwa mpango wetu wa wajibu wa Kampuni kwa jamii na kuanzishwa kwa kamati shirikishi. Katika Olkaria, tulianzisha kamati shirikishi ya washikadau ambayo ilipewa jukumu la kutafuta uwiano kati ya matakwa ya jamii na malengo ya KenGen, hasa wakati wa utekelezaji wa miradi ya umememvuke.

Kwa mara nyingine, KenGen imefikia malengo yake kwenye Kandarasi ya Utendakazi kama zilivyotayarishwa na Serikali ya Kenya kwa kufikia malengo yake ya utekelezaji, kifedha na kimkakati. Kufuatia uongozi ufaao wa kamati kuu simamizi, chini ya Mkurugenzi Mkuu na Affisa Mtendaji, sina shaka kwamba tumo njiani kufanikisha malengo yetu ya kuzalisha MW 3000 kufikia 2018, kuongeza idadi ya wateja wanaotumia umeme na kuzidisha ukuaji wa uchumi. Hii itafanikishwa kupitia utoaji wa miradi ya gharama ya chini, kuzidisha uzalishaji kupita mahitaji na kudumisha akiba ya kutosha pamoja na kuimarisha vyanzo vya sasa vya uzalishaji umeme ili kuhakikisha uzalishaji wa umeme wa kutegemewa.

Tunafahamu kuwa Kampuni maarufu zinaundwa kupitia mawazo na tunaendelea kuteka ufahamu na tajiriba pana ya wafanyikazi wetu. Tunatambua mchango wa wafanyikazi wetu katika kuhakikisha kampuni inaafikia shabaha yake. Wakati wa kipindi hiki, tulikuwa na uhusiano mwema wa kiviwanda na hivyo kuwezesha Kampuni kutimiza malengo yake ya utendakazi.

Katika muda wa miaka mitano iliyopita, Kampuni imedumisha mapato mazuri ya mgao wa faida. Bodi hii inapendekeza mgao wa mwisho wa Shs 0.60 kwa kila hisa wa jumla ya Shs.1,319milioni utakaolipwa mnamo au karibu na Januari 31, 2013 kwa wenyehisa ambao majina yao yatakuwa kwenye rejista ya wanachama kufikia mwisho wa shughuli za biashara mnamo Desemba 5, 2012.

Tunatambua usaidizi wa Serikali, washirika wetu wa kibiashara na washikadau wengine tunapoazimia kupata ufadhili mkubwa wa Dola 4 bilioni kufadhili mpango wetu mkubwa wa upanuzi.

Wenzangu katika Bodi pamoja nami tutaendelea kutoa mwongozo na usaidizi unaohitajika kukweza KenGen hadi viwango vya juu na kufanikisha jukumu letu kwa wenyehisa na Wakenya wote.

Mhe. Titus K. Mbathi, EGH - Mwenyekiti

Letter from the Managing Director & CEO

Edward Njoroge, Managing Director & CEO

Dear Shareholders,

In 2012, the global landscape was marked by persistent economic and financial uncertainty, with more limited growth in the western economies and a more vigorous expansion in African economies. Kenya's growth was a little slower than the 5% registered by the rest of the continent. However, the country is poised to post stronger growth in the coming years.

The challenge power companies' face in the life of a growing economy is how to meet present demand while investing to safeguard the future. The only solution to this challenge is to aggressively build power generation capacity. This is just what we are doing. KenGen's capacity expansion programme is fully under way, with 316MW of the planned 500MW by end of 2012 already commissioned. We are also investing resources to install an additional 1500MW by 2018. Our goal is to provide safe, reliable, affordable and cleaner power in the decades to come.

Realizing our vision as the leading responsible energy provider in the region is an extremely challenging task. It requires large-scale capital investments in assets whose economic life will span many decades. We live in volatile economic conditions, with evolving expectations of Government, society and potentially disruptive changes in technology. In such circumstances, it is essential that there is strategic clarity. Our Good-to-Great (G2G) strategy provides this clarity and has charted a path to the achieving our vision.

We are confident that through long-term planning that takes into account the complex interplay of economic growth, regulatory reform and protection of the environment, KenGen is set up for success. As a company partially owned by the government, we have a direct mandate of ensuring a secure supply of electricity to achieve the aspirations of Vision 2030, while meeting the expectations of our shareholders.

Securing Kenya's Future

Reliable and Cleaner Generation

Out of the 1,231MW installed capacity, KenGen prudently maintains a fuel-diverse portfolio of electricity generating plants. Currently, our fleet is 66 percent hydro, 21 percent thermal, 13 percent geothermal and less than 1 percent wind. 80 percent of this portfolio produces renewable electricity. Our goal is to have geothermal account for half of our fleet by 2018. This will ensure that we are able to provide renewable and reliable power supply that is not weather-dependent.

For this reason, we have embarked on an ambitious geothermal development programme starting with the Vision 2030 flagship Olkaria I & IV 280MW project to be commissioned in 2014 at an estimated cost of US$ 1 billion.

To fast track geothermal generation, we have pioneered portable geothermal power plants. A 5MW pilot unit has been commissioned. We expect to deploy an additional 65MW of this innovative technology of portable wellhead geothermal units by 2014.

This technological breakthrough is significant in many ways. First it will allow early generation to give Kenyans power quickly before putting up conventional plants that take 8-10 years to implement. In this way we are able to meet current supply-demand needs as we invest to safeguard future supply. This is a first in the world of geothermal.

In a bid to accelerate geothermal development, we have acquired two electric land drilling rigs of 2000 horsepower. We now have three rigs and in addition we have hired five more rigs making a fleet of eight. With these rigs, we will embark on the next phase of implementing 560MW of geothermal.

In the next five years, we anticipate an investment of US$ 5 billion. This major undertaking will not only provide adequate power supply, but also spur economic and social growth — creating thousands of jobs.

Recent discovery of domestic oil and coal could offer great potential for low-cost fuels, which could enable the country save on its fuel import bill and use the savings to invest in renewable energy. With a diverse generation mix, we will be well poised to deliver affordable, reliable and clean energy for years to come.

During the year, we brought online 52.5MW of renewable capacity. The plants completed include: Sang'oro Hydro 21MW, Kindaruma 24MW, Eburru 2.5MW and Pilot Geothermal Wellhead 5MW.

Optimisation

In line with our strategy, we are modernizing hydro plants along the Tana River cascade. This process began in 2010 when we upgraded Kiambere power station by 24MW thereby increasing its output from 144MW to 168MW in 2011, we commissioned 20MW at Tana power station. Kindaruma is our third project in this pursuit of which 24MW were commissioned in the year. Through the use of modern technology, we will increase Kindaruma's output from the initial 40MW to 72MW by June 2013.

We are also maximizing on our existing capacity by ensuring the highest level of plant availability. Major initiatives include optimizing maintenance practices and instituting efficient operational processes.

Financial Sustainability

As a result of our aggressive expansion of capacity and prudent management of our operating plants, our revenue grew by 15% from Kshs.15,222 million in 2011 to Kshs.17,436 million in 2012. We optimised our operating costs resulting in a marginal rise of 3% despite increasing inflation and rising costs of doing business.

In line with our ambitious expansion strategy, we intensified our fund raising drive in both the local and international debt markets. This enabled timely commissioning of Kiambere, Tana, Kipevu III, Sangoro, Kindaruma Unit 3, Geothermal Wellhead and Eburru power plants. As a result, our financing cost grew by 49% from Kshs.1,997 million in 2011 to Kshs.2,972 million in 2012.

I am proud to report that this year, our profit before tax grew by 11% from Kshs.3,651 million to Kshs.4,045 million. We also strengthened our asset base, by increasing it from Kshs.160,993 million to Kshs.163,145 million mainly due investment in new power plants and drilling rigs.

Environmental Leadership

Power generation requires adherence to strict environmental standards.. KenGen is at the forefront in mitigating the effects of climate change. We pioneered carbon credits in Kenya with the commissioning of Olkaria 35MW geothermal plant in 2010 and Tana 20MW Hydro in 2011. We are currently working to reduce our carbon footprint by diversifying our energy mix to reduce generation from thermal sources. Overall, the Company estimates an annual abatement of close to 5 million Carbon Emission Reductions (CERs) from 2019 in its clean energy plan focused on geothermal development. We have have continued to strengthen our commitments to environmental protection and mitigating the effects of climate change.

To adhere and continually improve environmental management, KenGen acquired the ISO 14001:2004 Environment Management System (EMS) in 2009. We are currently upgrading this system and awaiting re-certification status to effectively maintain it. Further, in all the projects that KenGen undertakes, an Environmental and Social Impact Assessment (ESIA) is carried out to mitigate any adverse environmental effects. Today, EMS forms the backbone on which KenGen effectively operates its power plants and undertakes its capacity expansion.

Leadership in Innovation & Continuous Improvement

Leadership is about doing the right things today, to create a better tomorrow. Like anything worth doing, that is hardly easy. As we prepare for the future, we must deal with the realities of today. The current realities for KenGen are the rising cost of providing clean and reliable energy, navigating the regulatory process and, as always, balancing the needs of our diverse stakeholders. The strength of our financial performance over the years underscores the hard work and dedication of our employees.

They have remained focused on our goals: to safely deliver affordable, reliable and clean energy to generate solid returns for our investors. In 2004, we became the first parastatal in Kenya to be ISO 9001:2004 - Quality Management System (QMS) certified. Since then, using QMS principles, KenGen has been operating its generation portfolio effectively through world class operational and maintenance procedures.

It can take up to a decade to drill enough geothermal wells, develop the steamfield and construct a power plant to utilize all the steam gathered. We spent considerable time and energy on exploring the use of portable wellhead geothermal units in the last three years.
This effort paid off in 2012 as we commissioned a 5MW geothermal wellhead unit. We expect to install an additional 65MW of similar units by 2014.

Our goal for this innovative technology is to meet the tight power supply vis-a-vis demand in the country, while rewarding our investors with early returns for wells drilled, awaiting the development of a conventional power plant.

Positioned for Regulatory Success

Building new power plants and modernizing existing plants does not come cheap. Power plants take years to construct and require enormous amounts of capital. In fact, the industry in which power utilities operate is among the most capital-intensive, with some of the longest investment cycles. These investments are recouped through tariffs over the operating lives of the plants, which span many decades.

The decisions we make today to expand our generation capacity will last several generations. Thanks to the investments we made decades ago in low-cost hydro and geothermal, our customers now enjoy competitive hydro and geothermal tariffs.

Our goal is to strike the right balance between the benefits to our customers and shareholders, vis-à-vis the expectations of the state regulators, to keep electricity costs competitive. The Government is revising the Energy Act and Energy Policy in line with the The Constitution which represents a major step in enhancing Kenya's energy regulatory reforms. Many studies are on going and we are actively involved in shaping this regulatory environment.

Supporting Communities

We have expanded our social commitments by taking responsibility for the way projects and operations affect our communities. We believe social responsibility goes beyond allocating funds through corporate social responsibility (CSR) investments.

It is also about incorporating an ethic of social responsibility into our business model and taking into account how our decisions affect all stakeholders. We have extensive on-going stakeholder engagements. For instance, to ensure that the concerns of the project affected persons (PAPs) in the new geothermal plants in Olkaria are handled adequately, a stakeholders' coordination committee that draws heavily from the local community as been formed. This will ensure all aspects of the project - health, environmental and social-economic issues-are addressed.

Our community support is continual. In our endeavour to contribute to building peace, a critical ingredient for development, the leaders in Turkwel identified education as paramount to lasting harmony. KenGen not only funded a scholarship program to encourage education excellence among students and provide an alternative to pastoralist livelihoods but also contributed to the Tecla Lorupe Peace Race – an event aimed at building peace in the area.

Our People

I have to start with what matters most — safety. This is one of our core values. We had no employee and contractor work-related fatalities. The employee Total Incident Case rate has improved every year since 2006. Our people deserve the credit — from our senior leaders who keep the focus on safety, to the front-line workers in the plants, who consistently put safety first.

We are an engineering and technology-based company. In order for us to capitalize on our long-term investment in power generation, we have to continually recruit, train and equip our employees with world-class technical know-how. In this regard, we revamped our staff performance management system to ensure we objectively recognize the top performers in the Company. Further, we introduced annual company-wide technical seminars and online forums where our staff can share and apply innovative concepts.

The primary focus is to build individual and team capabilities and in effect build organisational capabilities. Promotion and succession planning is a key objective of the Company as we have majority of the most experienced staff retiring in the next decade. We have therefore embarked on aggressive recruitment and capacity building for the next generation of energy professionals who will lead the Company through the challenges of tomorrow. In addition to building our human capital, we are also contributing to the national skills base.

During the year under review, we provided work-based industrial attachment to 721 young students pursuing various-energy related degree courses.

Work-place diversity and employee health are key to long-term success and growth. At KenGen, we recognize, appreciate and utilize the unique insights, perspectives and backgrounds of each employee. We are implementing gender and disability mainstreaming policies to widen our diversity. We also provide our employees with quality healthcare plans, which include routine counselling, disease management and prevention.

Challenges

These accomplishments notwithstanding, KenGen faces some challenges that must be addressed in the year ahead and beyond.

Maintenance and New Build- The nation's installed capacity in 2012 was 1,708 MW. In line with global best practice, the country requires at least 512 MW (30%) of that generating capacity in reserve to take generating units off-line to perform essential maintenance. Due to the growing power demand, making available that reserve capacity has been a challenge.

Financing- to provide the 19,586MW target by year 2030, as a country we need to invest at least US$ 4 billion annually for the next 18 years. Our need for large infrastructure investment to meet current and future power demand therefore far surpasses financing that can be provided by public or donors.

Given these limitations, the solution then is to expand the use of public-private partnerships (PPP). The Government has taken the lead to institutionalise the PPP framework and KenGen is optimistic that this avenue will inject the needed funding for our ambitious programme. Indeed in our next 560MW Geothermal build, we plan to explore the PP route.

Priorities for 2013 and Beyond

In the year ahead, full implementation of The Constitution will shape the future of the energy sector. The Government is revising the Energy Act 2006 and Energy Policy in line with The Constitution. This represents a major step in creating a robust regulatory and institutional framework that will enable the delivery of Vision 2030 goals. The introduction of county governments also presents a fundamental shift in the energy sector.

As a company, we anticipate growing our capacity by 1500MW in the next five years at a cost of approximately US$ 5 billion. We also expect to grow our earnings six-fold by bringing online new power plants.

In summary, we shall continue to safely supply power, reduce our carbon footprint, build a quality workforce, support our communities and maximize value for our shareholders. Our commitment to move from Good-to-Great is steadfast. Regardless of what 2013 and the years beyond hold in store, KenGen remains strong, resilient and well-positioned for a sustainable future.

Edward Njoroge, EBS, Managing Director & CEO

Edward Njoroge, EBS, Managing Director & CEO

Barua ya Mkurugenzi Mkuu na Afisa Mtendaji

Wenyehisa wapendwa,

Mnamo 2012, uchumi wa dunia ulidorora huku kukiwa na utovu wa uthabiti katika masoko ya kifedha. Chumi za mataifa ya magharibi zililemaa huku zile za mataifa ya Afrika zikiimarika kwa kiwango kikubwa. Ukuaji wa uchumi wa Kenya ulikuwa wa chini ya asilimia 5, ambao ulipatikana katika mataifa mengine ya Afrika; hata hivyo taifa hili limo njiani kupata viwango vya juu vya ukuaji katika miaka ijayo.

Changamoto inayokabili kampuni za umeme katika mazingira ya uchumi unaokua ni namna ya kutosheleza mahitaji ya umeme huku zikihakikisha zinawekeza vya kutosha kwa siku zijazo. Suluhisho kwa changamoto hii ni kupanua kwa kiwango kikubwa uwezo wa uzalishaji umeme na hili ndilo tufanya. Mpango wa upanuzi wa uzalishaji wa KenGen sasa umo njiani, huku uzalishaji wa MW316 kati ya MW 500 zinazopangiwa kufikia mwishoni mwa 2012 tayari ukizinduliwa. Pia tunawekeza raslimali ili kuzalisha MW1500 kufikia 2018. Lengo letu ni kutoa umeme salama, wa kutegemewa, nafuu na safi kwa miongo ijayo.

Kufanikisha maono yetu kama mzalishaji umeme msifika anayeongoza wa umeme katika kanda hii ni changamoto kubwa kabisa. Inahitaji uwekezaji wa miradi inayohitaji mtaji mkubwa katika vifaa ambavyo vitadumu kwa miongo kadha, kwenye mazingira magumu ya kiuchumi, pamoja na matarajio yanayobadilika ya serikali, jamii na mabadiliko yasiyofaa ya teknolojia. Katika hali kama hiyo, ni muhimu kuwa na mkakati ulio bayana. Mkakati wetu wa Nzuri hadi Bora Zaidi (G2G) unatoa uwazi huu na mwelekeo wa kufanikisha maono yetu na kutimiza matarajio ya wenyehisa wetu.

Tuna imani kuwa kutokana na mipango ya muda mrefu ambayo inatilia maanani mwingiliano wa ukuaji wa uchumi, marekebisho ya usimamizi na utunzaji wa mazingira, KenGen inaelekea kupata ufanisi. Kama kampuni ambayo sehemu yake inamilikiwa na Serikali, tuna mamlaka ya moja kwa moja kuhakikisha utoaji wa umeme wa kutegemewa ili kuafikia malengo yetu ya Ruwaza ya 2030.

Kulinda Siku za baadaye za Kenya

Uzalishaji wa Umeme Safi na wa Kutegemewa

KenGen kwa busara yake ina viwanda vinavyotumia kawi tofauti kwa uzalishaji umeme. Kwa sasa, asilimia 66 ya viwanda vyetu hutumia maji, 21 hutumia joto, asilimia 13 umememvuke na chini ya asilimia 1 upepo. Asilimia 80 ya mbinu hizi hutoa umeme wa kuzalisha upya. Lengo letu ni kuhakikisha umememvuke unachangia nusu ya umeme wote tunaozalisha kufikia 2018. Hii itahakikisha tunaweza kutoa umeme wa kuzalisha upya, wa kutegemewa na usiotegemea hali ya anga. Kufuatia hali hii, tumeanzisha mpango madhubuti wa ustawishaji wa umememvuke tukianza na mradi wetu mkuu wa Ruwaza 2030 wa Olkaria I na IV utakaozalisha MW280 ambao utazinduliwa katikati ya 2014 kwa gharama inayokisiwa kuwa Dola 1bilioni.

Ili kuharakisha uzalishaji wa umememvuke, tumeanzisha viwanda vya kuhamishwa vya umememvuke. Kiwanda cha majaribio cha MW5 kimeanzishwa. Tunatarajia kutumia tekinolojia hii kuzalisha MW65 zaidi. Ufanisi huu wa teknolojia ni muhimu kwa njia nyingi. Kwanza, utawezesha uzalishaji wa na haraka na kuwapa Wakenya umeme kabla ya ujenzi wa viwanda vya kawaida ambao utachukua kati ya miaka 8-10 kukamilika. Kwa njia hii, tunaweza kutosheleza mahitaji ya wakati huu ya umeme huku tunapowekeza kuhakisha uzalishaji wa kutosha wa umeme siku sijazo. Huu ni ufanisi mkubwa katika sekta ya umememvuke duniani.

Katika hatua ya kuharakisha ustawi wa umememvuke, tumenunua mitambo miwili ya stima yenye nguvu ya kuchimba ardhini. Kwa sasa tuna mitambo tatu yakuchimba ardhi pamoja na tano zingine zilizo kodeshwa zikifika nane. Kutokana na mitambo hii, tutaanzisha awamu nyingine ya uzalishaji wa MW560 za umememvuke.

Katika muda wa miaka mitano ijayo, tunatarajia kuwekeza Dola 5bilioni. Mradi huu mkubwa utatoa sio tu umeme wa kutosha, utachochea ukuaji wa kiuchumi na kijamii-kuunda maelfu ya nafasi za kazi.

Wakati huo huo, uvumbuzi wa hivi majuzi wa mafuta na makaa nchini utaweza kutoa kawi ya bei ya chini, hali ambayo itawezesha nchi kupunguza gharama yake ya uagizaji wa mafuta na kutumia akiba hiyo kuwekeza katika kawi ya kuzalishwa upya. Tukiwa na mchanganyiko pana wa mbinu za uzalishaji, tumo kwenye nafasi bora ya kutoa umeme nafuu, wa kutegemewa na safi kwa miaka mingi ijayo.

Katika mwaka uliomalizika, tulizindua viwanda vya kuzalisha MW52.5 za umeme. Viwanda vilivyomalizika ni pamoja na: Sang'oro Hydro 21MW Kindaruma 24MW, Eburru, 2.5MW na mitambo ya majaribio ya kuzalisha 5MW.

Vifaa vya Kisasa

Sambamba na mkakati wetu, tunajenga viwanda vipya kwenye maporomoko ya maji ya Tana River. Utaratibu huu ulianza mnamo 2010 wakati tuliimarisha kiwanda cha kuzalisha umeme cha Kiambere kwa MW24 na hivyo kuongeza uzalishaji wake kutoka MW144 hadi MW168. Mnamo 2011, tulianzisha uzalishaji wa MW 20 katika kiwanda cha umeme cha Tana. Kindaruma ni mradi wetu wa tatu kwenye jitihada hizi. Kupitia matumizi ya tekinolojia ya kisasa tutaendelea kuongeza uzalishaji wakiwanda cha umeme cha Kindaruma kutoka MW40 hadi MW72 kufikia Juni 2013.

Pia tunatumia kikamilifu uwezo wetu wa sasa kuhakikisha viwanda vimo kwenye hali shwari. Mipango iliyopo ni pamoja na kuhakikisha utunzaji wa hali ya juu na kudumisha tarataribu zifaazo za utendakazi.

Uthabiti wa Kifedha wa kutegemewa

Kutokana na mpango wetu mkubwa wa upanuzi na usimamizi bora wa viwanda vyetu vya uzalishaji, tulipata nyongeza ya asilimia 15 ya mapato yetu. Gharama za utendakazi zilipanda kwa kiwango kidogo kwa asilimia 3 licha ya kuongezeka kwa mfumko wa bei na gharama ya kufanya biashara.

Ni furaha yangu kutangaza kuwa mwaka huu, faida kabla ya ushuru iliongezeka kwa asilimia 11 kutoka Sh3,651 milioni hadi Sh4,045 milioni. Thamani ya vifaa vyetu iliongezeka kutoka Ksh160,993 milioni hadi Ksh163,145 milioni hasa kutokana na uwekezaji katika viwanda vipya na mitambo ya uchimbaji.

Tuliongeza mgao wa faida kwa wenyehisa wetu kutoka Ksh1,099 milioni hadi Ksh1,319milioni. Tuliendelea pia kunufaika na viwango nafuu vya riba kutoka kwa wahisani wetu kufadhili upanuzi wa miradi yetu mikubwa na ile ya kununua vifaa vya kisasa.

Usimamizi wa Mazingira

Uzalishaji wa umeme unahitaji uzingatiaji wa hali ya juu ya viwango vya mazingira. KenGen inazingatia zaidi mabadiliko ya hali anga. Tulikuwa wa kwanza kupokea malipo ya kudumisha hewa safi nchini baada ya kuzindua kiwanda cha Olkaria cha kuzalisha MW35 za umememvuke mnamo 2010. na, na uzalishaji kutoka Tana MW20 kufikia 2011 Kwa sasa, tunaendelea kupunguza kaboni inayotoka kwenye viwanda vyetu kwa kupunguza uzalishaji unaotokana na umemejoto. Kwa ujumla, Kampuni inaazimia kupunguza utoaji wa kaboni kwa vipimo karibu 5milioni (CERs) kuanzia 2019 kwenye mpango wake wa kuzalisha kawi safi unaoangazia zaidi ustawi wa umememvuke. Tumeimarisha kujitolea kwetu katika uhifadhi wa mazingira na kupunguza athari za mabadiliko ya hali ya anga. Ili kuzingatia na kuendelea kuimarisha usimamizi wa mazingira, KenGen ilipata hati ya ubora wa huduma ISO 14001:2004 Environment Management System (EMS) mnamo 2009 katika uhifadhi wa mazingira.

Tunaimarisha mfumo huu na tunasubiri kupokea hati hiyo upya kwa kuzingatia viwango vyake vya ubora. Isitoshe, katika miradi yote ambayo KenGen inaanzisha, uchunguzi kuhusu athari za kimazingira na kijamii (ESIA) ni lazima ufanywe ili kupunguza madhara yoyote dhidi ya mazingira. Na leo, EMS ndio nguzo ambapo KenGen inaendeshea viwanda vyake na kutelekeza mpango wake wa upanuzi wa viwanda vyake.

Uongozi katika Ubunifu na uboreshaji wa huduma zetu

Uongozi unahusisha kufanya mambo mazuri leo, ili kuunda kesho iliyo bora zaidi. Sawa na chochote kinachostahili kufanywa, hilo si rahisi. Huku tunapojiandaa kwa siku sijazo, ni lazima tushughulikie changamoto za sasa. Changamoto za sasa kwa KenGen ni gharama ya juu ya kuzalisha umeme safi na wa kutegemewa, kukabiliana na kanuni na masharti ya usimamizi, na kama kawaida, kuhakikisha tupata uwiano na mahitaji ya washikadau wetu tofauti. Uthabiti wa matokeo yetu ya kifedha wa muda mrefu unadhihirisha kazi nzuri na kujitolea kwa wafanyikazi wetu. Wamemakinika kwenye malengo yetu: kuzalisha kwa njia salama umeme nafuu, wa kutegemewa na safi na kupata faida kwa wawekezaji wetu.

Mnamo 2004, tulikuwa shirika la kwanza serikali nchini kupokea hati ya viwango vya ubora katika usimamizi ISO 9001:2004 - Quality Management System (QMS). Tangu wakati huo, KenGen imekuwa ikiendesha shughuli zake za kibiashara kupitia taratibu bora zaidi duniani za utendakazi na usimamizi. Inaweza kuchukua hadi mwongo mmoja kuchimba visima vya kutosha vya umememvuke, kujenga njia ya mvuke na kuunda kiwanda cha umeme cha kutumia mvuke ulionaswa. Tumetumia muda na nguvu nyingi kutafuta mbinu ya kutumia mitambo ya muda ya kuzalisha umememvuke kwa muda wa miaka mitatu iliyopita. Jitihada hizi zilizaa matunda mnamo 2012 tulipozindua mitambo ya kuzalisha MW5 za umememvuke. Tunatarajia kuzindua mitambo mingine kama hiyo ya kuzalisha MW65 mwaka ujao. Lengo letu kwa tekinolojia hii mpya ni kutosheleza mahitaji makubwa ya umeme nchini, huku tukinufaisha wawekezaji wetu na mapato ya mapema kutokana na visima vilivyochimbwa vikisubiri ujenzi wa kiwanda.

Tayari kwa Ufanisi wa Usimamizi

Ujenzi wa viwanda vipya- na ukarabati wa viwanda vilivyopo- ni ghali mno. Viwanda vya umeme huchukua muda mrefu na raslimali nyingi kujenga. Ama kweli, sekta ya uzalishaji umeme uhitaji kiasi kikubwa cha mtaji, na huchukua muda mrefu kuanzisha. Uwekezaji huu unazalisha matunda kupitia ada zinazotozwa wateja katika muda ambapo viwanda hivyo vinahudumu ambao ni miongo kadha. Maamuzi tunayofanya leo ya kupanua uzalishaji yatadumu kwa vizazi kadha vijavyo.

Kutokana na uwekezaji tuliofanya wa uzalishaji umeme kutokana na maji na umememvuke miongo kadha iliyopita, wateja wetu wanafurahia ada za chini za umeme. Lengo letu ni kutafuta uwiano kati ya manufaa kwa wateja wetu na wenyehisa, na matarajio ya taasisi simamizi za serikali, kuhakikisha gharama za umeme ni za chini. Serikali inarekebisha Sheria ya Kawi na Sera ya Kawi kulingana na mijibu wa sheria hali inayoashiria hatua kubwa katika kuimarisha marekebisho katika usimamizi wa sekta ya kawi. Utafiti inayo endelea na sisis tushirikishwa vilivyo katika kutengeneza hii mazingira ya udhibiti.

Kusaidia Jamii

Tumepanua mipango yetu ya kijamii kwa kuwajibikia namna miradi na operesheni zetu zinaathiri jamii. Tunaamini uwajibikaji wa kijamii ni zaidi ya kutenga pesa za kuwekeza kupitia mpango wa uwajibikaji kwa jamii (CSR). Ni pamoja na kushirikisha mpango mzima wa uwajibikaji kwa jamii kwenye mfumo wetu wa kibiashara na kutafakari kuhusu namna maamuzi yetu yanaathiri washikadau wote. Tuna mpango wa kushauriana kwa kina na washikadau wengine. Kwa mfano, ili kuhakikisha malalamishi ya waathiriwa wa mradi (PAPs) kwenye viwanda vipya katika Olkaria yanashughulikiwa ipasavyo, kamati shirikishi ya wahusika wote ambayo wanachama wake wengi ni kutoka jamii iliyo karibu ilibuniwa. Hii itahakikisha masuala yote kuhusiana na mradi huo-afya, mazingira, jamii na kiuchumi yanashughulikiwa.

Mchango wetu kwa jamii si wa muda. Katika jitihada zetu za kuchangia kudumisha amani, kiungo muhimu kwa maendeleo, viongozi katika eneo la Turkwel walitambua elimu kama nguzo kuu katika utulivu wa muda mrefu. KenGen ilidhamini mpango wa kusaidia watoto werevu kutoka familia maskini ili kuwatia shime wanafunzi na kutoa njia mbadala za kujipatia riziki kwa jamii za ufugaji. Vile vile, ilichangia kwa mashindano ya mbio ya TeclaLorupe-shughuli inayolenga kukuza amani katika eneo hilo.

Wafanyikazi Wetu

Nitaanza na kile kilicho muhimu zaidi-usalama. Hii ni mojawapo ya maadili yetu muhimu. Hatukupata maafa yoyote ya mfanyikazi au mwanakandarasi wakiwa kazini. Kiwango cha ajali zinazohusisha wafanyikazi kimepungua kila mwaka tangu 2006. Watu wetu wanahitaji pongezi-kutoka kwa viongozi wetu wanaozingatia usalama, hadi kwa wafanyikazi viwandani, wanaodhamini usalama kwanza. Sisi ni kampuni inayojikita katika uhandisi na teknolojia. Ili kutumia kikamilifu raslimali zilizopo kwa uwekezaji wa muda mrefu wa

Kampuni katika uzalishaji, tutaendelea kuajiri, kutoa mafunzo na kuwapa wafanyikazi wetu mafunzo ya hali ya juu katika teknolojia.

Kwa mintaraafu hii, tulifufua mfumo wetu wa kutathmini utendakazi wa wafanyikazi wetu kuhakikisha tunawatuza na kuwatambua wafanyikazi wanaong'ara kazini. Isitoshe, tulianzisha semina za kila mwaka za kutoa mafunzo ya kiufundi katika kampuni nzima na majukwaa kwenye intaneti ambapo wafanyikazi wetu wanaweza kushauriana na kutekeleza dhana za kisasa.

Lengo kuu ni kukuza vipawa vya watu binafsi na vikundi na kujenga ujuzi katika kampuni. Kupandishwa cheo na mipango kuhusu urithi ni azima muhimu kwa Kampuni kwa kuwa tuna idadi kubwa ya wafanyikazi walio na ujuzi wa hali ya juu watakaostaafu katika muda wa mwongo mmoja ujao. Hivyo basi, tumeanzisha harakati za kuajiri na kuwanoa wataalamu wa kawi kwa siku sijazo ambao wataongoza kampuni kupitia changamoto za kesho.

Mbali na kuajiri wafanyikazi wetu, tunachangia watumishi walio na vipawa vya hali ya juu. Kwa mwaka uliomalizika, wanafunzi 721 wanaosomea digrii zinazohusiana na umeme walipata fursa ya kunoa vipawa vyao katika kampuni yetu. Uajiri wa wafanyikazi wa hulka mbalimbali na afya ya watumishi wetu ni muhimu kwa ufanisi na ukuaji wa muda mrefu. Katika KenGen, tunatambua, kushukuru na kukumbatia maono, mitazamo na misingi ya kila mmoja wetu. Tunatekeleza sera za kuimarisha masuala ya jinsia na ulemavu ili kupanua aina za wafanyikazi. Huwa pia tunatoa kwa wafanyikazi wetu bima ya afya ambayo pia inajumuisha ushauri nasaha, utunzaji wa wagonjwa na kuzuia maambukizi.

Changamoto

Licha ya ufanisi huo, KenGen inakumbwa na baadhi ya changamoto ngumu ambazo zinapasa kushughuliwa mwaka ujao na kuendelea.

Utunzaji na Ujenzi Mpya-Kenya ina uwezo wa kuzalisha MW1,708 kufikia sasa. Sambamba na mbinu bora zaidi za utendakazi, nchi hii inahitaji angalau MW 512 au (asilimia 30) ya uwezo huo wa uzalishaji uwe wa akiba ili kuwezesha mitambo ya umeme kuzimwa na kufanyiwa ukarabati muhimu. Kutokana na mahitaji yanayoongezeka ya umeme, kutenga mitambo hiyo ya akiba imekuwa changamoto kubwa.

Uwekezaji-ili kuafikia kiwango cha MW19,586 kufikia 2030, kama taifa tunahitaji kuwekeza angalau Dola 4 bilioni kila mwaka kwa miaka 18 ijayo. Mahitaji yetu ya kuwekeza miundomsingi mikubwa ili kutosheleza mahitaji ya sasa na ya siku sijazo ya umeme yanazidi ufadhili kutoka kwa umma na wafadhili. Kutokana na upungufu huu, suluhisho ni kupanua ushirikiano wa taasisi za umma na za kibinafsi (PPP). Serikali imeongoza katika harakati za kuweka sheria za utekelezaji wa mfumo huu wa PPP na KenGen ina matumaini kuwa mbinu hii itaongeza ufadhili unaohitajika kwa mpango huu mkubwa. Kwa hakika kwa mradi ujao wa MW560 wa umememvuke, tuna panga kuchunguza uwezekano wa kutumia taasisi za umma na za kibinafsi.

Masuala ya Kupewa Kipaumbele 2013 na Zaidi

Katika mwaka unaokuja, utekelezaji wa Katiba mpya utaamua hali ya baadaye ya sekta ya kawi. Serikali inarekebisha Sheria ya Kawi 2006 na Sera ya Kawi sambamba na katiba mpya. Hii ni hatua muhimu katika kutoa mfumo mahususi wa usimamizi utakaofanikisha uafikiaji wa malengo ya Ruwaza 2030. Uzinduzi wa serikali za majimbo pia unaibua mabadiliko makubwa katika sekta ya kawi.

Kama Kampuni, katika muda wa miaka mitano ijayo, tunatarajia kupanua uwezo wetu wa uzalishaji kwa MW1500 kwa gharama ya Dola 5bilioni. Pia tunatarajia kuongeza mapato yetu sita maradufu, kwa kuzindua viwanda vyetu vipya.

Kwa mukhtasari, tutaendelea kusambaza umeme kwa njia salama, kupunguza utoaji wa hewa ya kaboni, kuwa na wafanyikazi wenye ujuzi, kusaidia jamii zetu na kutoa thamani kwa wenyehisa wetu. Kujitolea kwetu kuimarika kutoka Kampuni Nzuri hadi Bora zaidi bado kungalipo. Bila kujali yaliyomo mwaka ujao na zaidi, KenGen inasalia kuwa na nguvu, thabiti na tayari kwa siku za baadaye.

Edward Njoroge, EBS, Mkurugenzi Mkuu na Afisa Mtendaji

Executive Management Team

Managing Director & CEO – Edward Njoroge, EBS, BSc(Hons) Chemistry

In-charge of running of the Company to ensure that the mission is achieved and efficacy of the business is optimized. The CEO is accountable for the Company's actions, security of resources as well as ensuring execution of the identified corporate strategy for long term competitiveness. In addition to representing the management position on the Board, the MD & CEO chairs and supervises the Executive Committee (ExCo) comprising six divisional directors.

Departments: All Divisional Directors, Internal Audit & Risk Management (administratively though it reports to the Board Audit & Risk Management Committee), Transformation Monitoring Office and Security & Integrity

Business Development & Strategy Director – Eng. Albert Mugo, BSc (Hons) Electrical Engineering, MBA (Strategic Management)

In-charge of planning and effective implementation of all capacity expansion projects as well as driving the aggressive geothermal exploration plan. Responsible for project identification in line with national demand forecast, ensuring fast and prudent channelling of projects in the stage-gate process; from concept through feasibility, design, construction and commissioning of power plants.

Departments: Capital Planning & Strategy, Geothermal Resource Development and Project Execution

Company Secretary / Legal & Corporate Affairs Director – Rebecca Miano, OGW, LLB (Hons), Dip in Law KSL, PG Dip Comparative Law, CPS (K)

In-charge of providing guidance & support to the Board and is the secretary to the Board & all its Committees. Responsible for establishing and enforcing the corporate governance framework of the Company and safeguarding shareholders' interests. Legal counsel of the Company and ensures the Company is repre sented positively and credibly to the external environment. Custodian of the Company interests in regard to property and indemnity. Responsible for corporate social responsibility and community relations.

Departments: Company Secretarial, Legal, Insurance, Corporate Affairs, Property and Shares & Securities

Finance & Commercial Director – John Mudany, BCom (Hons), MBA, MIBA (International Business), FCPAK

In-charge of the Company's finances, supply chain and information communication systems. Responsile for planning, sourcing and management of financial resources to achieve corporate objectives. Responsible for the prudent acquisition of Company resources and maintaining a robust ICT system to support the operations of the Company. Also responsible for purchases & logistics for all Company requirements.

Departments: Finance, ICT, Supply Chain and Corporate Finance

Human Resources & Administration Director – Beatrice Soy, BEd (Hons), MEd (Management)

In-charge of human capital, planning, recruitment, development, performance management and wellness. Responsible for harmonious employee relations. Also responsible for the management of all the Company's fleet and facilities for the comfort and convenience of employees.

Departments: Human Resources, Performance Management and Administration

Operations Director – Eng. Richard Nderitu, BSc (Hons) Mechanical Engineering

In-charge of operations at all power generating plants. Responsible for optimised maintenance programs to guarantee the declared plant availability. Ensures efficient and synchronized operations with the transmitter. Responsible for coordinating power dispatch.

Departments: Eastern Hydros, Geothermal, Thermal & Wind, Technical Services and Western Hydros

Regulatory Affairs Director – Eng. Simon Ngure, BSc (Hons) Mechanical Engineering, Dip Geothermal, Dip Project Management, Certified Energy Manager (CEM)

In-charge of spearheading the Company's interaction with the energy regulatory environment. Responsible for value levers in regard to dispatch requirements and Power Purchase Agreements while steering the deregulation process to maximize value for KenGen by engaging key stakeholders (energy sector players and regulators). Championing prudent and sustainable management of the environment and reinforcement of the quality guarantees and safety practices.

Departments: Regulatory Affairs, Technical Assurance & Quality and Environment & CDM

The Board of Directors

Governance

Corporate Governance is the procedures and practices which the Board embodies to direct the Company towards enhancing prosperity and corporate accounting, with the ultimate objective of realising shareholders' long term value while taking into account the interest of other stakeholders.

The Board

Hon. Titus Kitili Mbathi, EGH

Hon. Mbathi, Chairman of the Board, born in 1928 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.

Edward Njoroge, EBS

Mr Njoroge, born in 1952, 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 Securities Exchange, Telkom Kenya as well as the immediate former 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 CFC Stanbic Bank Kenya, Abcon Limited, REAL Insurance Company Limited, Proctor & Allan (EA) Limited and other leading enterprises in Eastern Africa.

Joseph Kinyua, CBS

Mr. Kinyua born in 1951 is the Permanent Secretary-Treasury and Holds BA(Econ) & MA (Econ) from the University of Nairobi. He began his career as an assistant lecturer at Nairobi University in 1978. He joined the Central Bank of Kenya in 1980 and worked his way through the ranks from an Economist to Director of Research. Mr. Kinyua also worked as an Economist on a fixed term appointment with the International Monetary Fund(IMF) during 1985-1990, after which he returned back to the Central Bank of Kenya(CBK).

He was appointed Financial Secretary to the Treasury in June 1995, a position he held until July 1999 when he rejoined CBK as Director of Financial Markets. In October 2000, he was appointed Director of Research and Chief Economist, CBK and in September 2002, he was appointed as Permanent Secretary to the Treasury, a position he held until January 2003 when he was appointed Permanent Secretary in the Ministry of Planning and National Development. In July 2003, he was appointed Permanent Secretary in the Ministry of Agriculture where he served until July 2004 when he was reappointed to his current position of Permanent Secretary to the Treasury. Mr. Kinyua is also a Director on several Boards of State Corporations including East African Development Bank(EADB). He served for six years as a member of the Programme Committee of the African Economic Research Consortium(AERC), and is currently a Director-at-large of the Consortium's Board and he is also Alternate Governor, World Bank Board of Governors.

Patrick Nyoike, CBS

Mr. Nyoike, born in 1947, 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.

Sarah W. Wainaina, HSC

Ms. Wainaina, born in 1942, 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.

George M. Njagi

Mr. Njagi, born in 1947, is a former Deputy Secretary, Ministry of Transport and Communications with a wealth of experience in civil aviation and air transport. He has also served as an alternate director of Kenya 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.

Musa Ndeto

Mr. Ndeto, born in 1952, 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. Mr. Ndeto is the Chairman of Kenya Commercial Bank and is currently in private practice.

Dorcas Florence Kombo

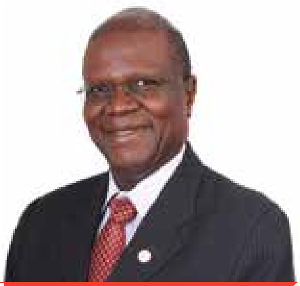
Mrs. Kombo, born in 1954, is a Fellow, Chartered Association of Certified Accountants, an Associate of the Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. She is currently a Management Consultant and has extensive experience in restructuring both public and private organizations across Africa. She is a director of Metis Consulting Limited.

Hedrick Masaki Omanwa

Mr. Omanwa, born in 1965, 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. Mr. Omanwa is the Managing Partner of Omanwa & Associates, an audit and consultancy firm.

Henry Nyamu M'Narobi, MBS, HSC

Mr. M'Narobi, born in 1945, 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. Mr. M'Narobi has also assisted in projects catering for the needs of the Liberian refugees in Cote D'Ivoire.



Mary Goima Michieka

Mrs. Michieka, born in 1946, 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 as Principal Personnel Officer and 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 the Chief Executive Officer and Consultant with Oland Investments. She is a Board Member of Lake Basin Development Authority and KCB'S Pension Association. Mrs. Michieka is also a chairperson and board member to various women associations and board member in three government schools.

Humphrey Muhu

Mr. Muhu, born in 1964, 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 20 years experience in various government ministries and departments.

John Omenge

Mr. Omenge, born in 1961, 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.

Corporate Governance

KenGen prioritises shareholders' interests and the foundation of its success is anchored on the dynamic and vigilant leadership of the Board.

Corporate Governance is the process and structure used to direct and manage the business affairs of the Company towards enhancing prosperity and corporate accounting, with the ultimate objective of realising shareholders' long term value while taking into account the interest of other stakeholders. At KenGen, we believe that Corporate Governance is core to ensuring the creation, protection and enhancement of shareholder value and that the Company remains a sustainable and viable business of global standing.

The Company is in compliance with the CMA Corporate Governance Guidelines as part of the 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".

Board Charter

This is a commitment by members of the Board to discharge KenGen's mandate. It seeks to ensure effectiveness of each Director's contribution in governing the Company by facilitating independent judgement and professional competencies. It outlines the rules that guide the Board and does not in any way purport to replace or supersede any laws and regulations that govern the Company. The Charter outlines the annual calendar wherein the Board and its committees are scheduled to meet every quarter and any other dates that may be determined by the nature of business operations.

Oversight Role of the Board

The responsibilities of members 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 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 oversees Management's implementation of the plans and strategies approved by the Board. It 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 and in both practice and compliance.

The Board reviews the strategic direction and adopts business plans proposed by Management, 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, organisational changes and remuneration issues.

The Board provides oversight of organisational performance against targets and objectives. It also oversees the reporting to stakeholders on the direction, governance and performance of the Company, as well as other processes that need reporting and other disclosure requirements.

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.

Each Director subscribes to the Company's core values, to always act in the interest of society, promote effective and responsible use of resources. This in effect takes into account not only the financial impact of their decisions, but also consequences on sustainable development, effect on relations with stakeholders and the general interest of the communities in which the Company operates.

Each member of the Board is fully aware that he/she is obligated to determine the Company's vision, mission and values, endorse strategic objectives, ensure establishment of the organisational structure and procedures to achieve the objectives, enforce effective control over the Company and account to shareholders.

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

In every quarter, the Board considers an Operational Report from the Managing Director & CEO; reports from each Board Committee; specific proposals for capital expenditure & acquisitions and strategic opportunities for the Company.

Periodically, the Board approves the Management Accounts and interim financial statements.

Annually, the Board approves the audited financial statements, reports to the Government and public announcements of material nature.

It reviews the Company's audit requirements; performance and composition of the Board Committees and the Company's ethical code. The Board also reviews the Company's Corporate Social Responsibility, investment policies and sustainable development programmes.

Board Effectiveness

Separation of the functions of the Chairman and Managing Director and the clear definition of their responsibilities, ensures the Board's independence from the Company's corporate management. This achieves an appropriate balance of power, increases accountability and improves capacity for independent decision making.

Induction

New Directors undergo a programme to deepen their understanding of the Company's business and operating environment. Corporate literature is provided and meetings arranged with the senior management team. In addition, visits are planned to power stations.

Continuous Professional Development

Training and development programs are conducted to ensure Directors update their skills and knowledge, as well as keep abreast of the developments in corporate governance. They attended relevant energy conferences and forums during the year. Biennially, the members of the Board attend the specialised '5-day Corporate Governance Training for Directors' offered by the Centre for Corporate Governance, Kenya.

Performance & Evaluation

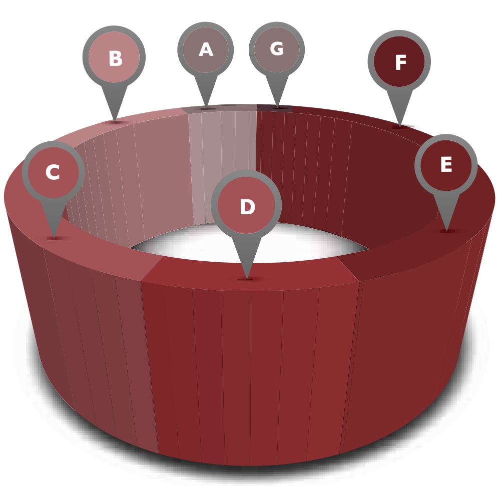
The Company's success is hinged on the performance of the Board. An independent consultant is engaged annually to assess the Board's performance alongside those of its Committees and individual Directors. During the year under review, the Board conducted a comprehensive performance evaluation.

Board Composition

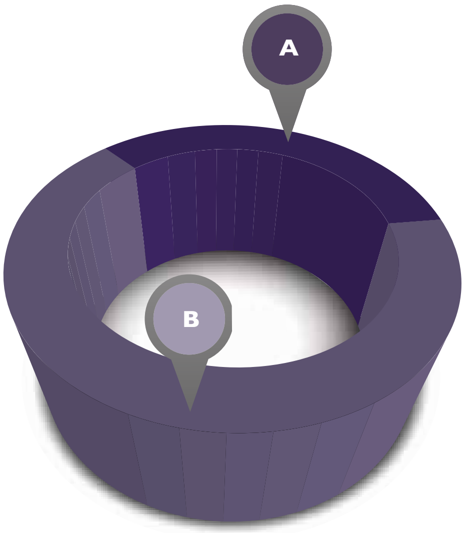
The Board of eleven (11) members is led by a non-executive and independent Chairman, one executive Managing Director, the Permanent Secretaries in Treasury and Ministry of Energy respectively, plus seven independent and non-executive directors.

The biographies of the Directors are published on pages 20-22.

Board Diversity



A - Economists
B - Scientist
C - Engineer
D - Accountants
E - Management
F - Lawyer
G - Geologist



A - Female - 3

B - Male - 8

Directors Remuneration

In accordance with the guidelines provided under the State Corporations Act and the approval given by 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 2012. No loans were granted to any non-executive director.

Code of Conduct

Our core values of integrity, professionalism, team spirit and emphasis on safety culture steer our Company's organizational health and decision-making processes.

Our business is conducted in compliance with relevant legal principles and high ethical standards of business practice. We apply these standards in all dealings with employees, customers, suppliers and other stakeholders.

Board Attendance

It held 5 regular and 4 special meetings in the year.

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

Members who were absent in each of the above meetings and the meetings of the Committees at the appointed time and date informed the Company Secretary in advance and their apologies were reported on and recorded.

Committees

All Board Committees including the Audit & Risk Management Committee are established with written terms of reference outlining their authority and duties. In the spirit of enhancing integrity and continual effectiveness, the triennial periodical review of the membership to the respective Committees was conducted in January 2012.

The Company Secretary/Legal and Corporate Affairs Director is the Secretary to all the Committees.

Hedrick Omanwa

Report of the Audit & Risk Management Committee

Membership

New Committee
Hedrick Omanwa - Chairperson
Humphrey Muhu
Dorcas Kombo
Musa Ndeto
George Njagi

Former Committee
Dorcas Kombo - Chairperson
Humphrey Muhu
Hedrick Omanwa
Henry M'Narobi
George Njagi
Edward Njoroge

Its membership includes four independent and non-executive directors. 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 and also 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. It also invites a representative of the external auditors when reviewing the audited results.

Attendance

8 regular and 6 special meetings were held in the year.

New Committee

Name	Attendance
Hedrick Omanwa	5
Humphrey Muhu	5
Dorcas Kombo	4
Musa Ndeto	5
George Njagi	5

Former Committee

Name	Attendance
Dorcas Kombo	9
Humphrey Muhu	7
Hedrick Omanwa	9
Henry M'Narobi	7
George Njagi	9
Edward Njoroge	9

Mandate

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

The Committee assesses effectiveness of the Company's internal control and risk management & 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 external & internal auditors to review the financial statements and results of the audit process;
iii. assesses if generally accepted accounting principles have been consistently applied within preparation of preliminary announcements & interim 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 considers the independence of the external auditors;
vi. confirms that all regulatory compliance is considered in the preparation of financial statements; and
vii. reviews the process for monitoring compliance with the Company's ethical guidelines.


Musa Ndeto

Report of the Strategy Committee

Membership

New Committee
Musa Ndeto- Chairperson
Humphrey Muhu
John Omenge
Dorcas Kombo
Henry M'Narobi
Edward Njoroge

Former Committee
Sarah Wainaina- Chairperson
Humphrey Muhu
John Omenge
Musa Ndeto
Henry M'Narobi
Edward Njoroge

Attendance

4 regular and 3 special meetings were held in the year.

New Committee

Name	Attendance
Musa Ndeto	5
Humphrey Muhu	3
John Omenge	4
Dorcas Kombo	5
Henry M'Narobi	5
Edward Njoroge	5

Former Committee

Name	Attendance
Sarah Wainaina	2
Humphrey Muhu	2
John Omenge	2
Musa Ndeto	1
Henry M'Narobi	2
Sarah Wainaina	2

Mandate

The Strategy Committee:

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

ii. 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 oversees the Company health including the review of financial and business plans and the overall Company Performance Management System.


Dorcas Kombo

Report of the Human Resources Committee

Membership

New Committee
Dorcas Kombo - Chairperson
John Omenge
Sarah Wainaina
Henry M'Narobi
Edward Njoroge

Former Committee
George Njagi- Chairperson
John Omenge
Dorcas Kombo
Hedrick Omanwa
Mary Michieka
Edward Njoroge

Attendance

4 regular and 4 special meetings were held in the year.

New Committee	
Name	Attendance
Dorcas Kombo	4
John Omenge	2
Sarah Wainaina	4
Henry M'Narobi	3
Edward Njoroge	4

Former Committee	
Name	Attendance
George Njagi	4
John Omenge	3
Dorcas Kombo	4
Hedrick Omanwa	4
Mary Michieka	4
Edward Njoroge	4

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.

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 organisation'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 the 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.

George Njagi

Report of the G2G Committee

Membership

New Committee
George Njagi- Chairperson
Hedrick Omanwa
Sarah Wainaina
Mary Michieka
Edward Njoroge

Former Committee
Musa Ndeto- Chairperson
George Njagi
Sarah Wainaina
Henry M'Narobi
Mary Michieka
Edward Njoroge

Attendance

4 regular meetings were held in the year.

New Committee	
Name	Attendance
George Njagi	2
Hedrick Omanwa	2
Sarah Wainaina	2
Mary Michieka	2
Edward Njoroge	2

Former Committee	
Name	Attendance
Musa Ndeto	1
George Njagi	2
Sarah Wainaina	2
Henry M'Narobi	1
Mary Michieka	2
Edward Njoroge	2

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.

Sarah Wainaina

Report of the Procurement Oversight Committee

Membership

New Committee
Sarah Wainaina- Chairperson
Titus Mbathi
George Njagi
Musa Ndeto
Mary Michieka
Edward Njoroge

Former Committee
Musa Ndeto - Chairperson
Titus Mbathi
Sarah Wainaina
Hedrick Omanwa
Dorcas Kombo
Edward Njoroge

Attendance

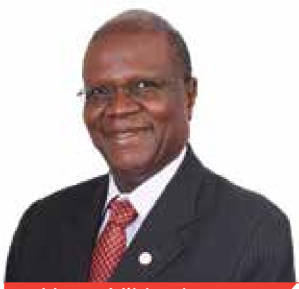
The Committee meets once every month or as when strategic procurements need to be reviewed. It held 20 regular meetings in the year.

New Committee	
Name	Attendance
Sarah Wainaina	8
Titus Mbathi	7
George Njagi	7
Musa Ndeto	8
Mary Michieka	8
Edward Njoroge	8

Former Committee	
Name	Attendance
Musa Ndeto	12
Titus Mbathi	12
Sarah Wainaina	12
Hedrick Omanwa	12
Dorcas Kombo	10
Edward Njoroge	12

Mandate

The Committee is mandated to approve proposals of the Tender Committee for contract awards for strategic procurements. It also approves all the annual procurement plans and discusses 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.



Henry M'Narobi

Report of the Public Infrastructure Bond Committee

Membership

New Committee
Henry M'Narobi - Chairperson
Humphrey Muhu
Hedrick Omanwa
Mary Michieka
Edward Njoroge

Former Committee
Henry M'Narobi - Chairperson
Humphrey Muhu
Musa Ndeto
Sarah Wainaina
Dorcas Kombo
George Njagi
Edward Njoroge

Attendance

It held 4 regular meetings in the year.

New Committee	
Name	Attendance
Henry M'Narobi	2
Humphrey Muhu	2
Hedrick Omanwa	2
Mary Michieka	2
Edward Njoroge	2

Former Committee	
Name	Attendance
Henry M'Narobi	2
Humphrey Muhu	2
Musa Ndeto	1
Sarah Wainaina	2
Dorcas Kombo	2
George Njagi	1
Edward Njoroge	2

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 per the Information Memorandum. It convenes on a quarterly basis to review the investment performance of the PIB funds to ensure adequate and competitive returns. It's mandated to review the repayment of the PIB funds to ensure fulfilment of repayment obligations and adequacy of cash flow.

Engagement with Shareholders

We are committed to providing regular and timely information to our shareholders. The Company publishes its half-year and annual results in the local daily newspapers.

In accordance with Article 137 of the Articles of Association of the Company, the Annual Report & Accounts is posted onto our website at www.kengen.co.ke at least 21 days before the Annual General Meeting (AGM) to ensure that all the shareholders are well informed at the AGM. The Company's website also gives shareholders quick access to the corporate information.

Shareholding

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

Top Ten Shareholders as at 30 June 2012

	Number of Shares	%
1. Permanent Secretary-Treasury	1,538,853,019	70.00
2. Board of Trustees, National Social Security Fund	11,593,029	0.53
3. National Social Security Fund, Board of Trustees	10,899,800	0.50
4. Standard Chartered Nominees Limited A/C 9230	10,175,300	0.46
5. Standard Chartered Nominees Limited A/C 9098AC	8,194,631	0.37
6. CFC Stanbic Nominees Ltd A/C R10602	6,185,131	0.28
7. Standard Chartered Nominees Limited A/C 1853	5,046,204	0.23
8. CFC Stanbic Nominees Ltd A/C NR1030682	4,725,700	0.21
9. Jubilee Insurance Company of Kenya Limited	4,571,600	0.21
10. Standard Chartered Nominees Limited A/C 9098AP	4,379,731	0.20
	1,604,624,145	72.99
202,701 other shareholders	593,737,311	27.01
Total	**2,198,361,456**	**100.00**

Distribution of Shareholders

Range	No of Shareholders	Shares	%Shareholding
1-500	90,421	23,390,410	1.06
501-1,000	42,299	33,691,589	1.53
1,001-5,000	47,379	101,401,604	4.61
5,001-10,000	18,442	120,877,270	5.50
10,001-50,000	3,430	66,370,789	3.02
50,001-100,000	311	21,809,891	0.99
100,001-500,000	309	67,968,800	3.09
500,001-1,000,000	49	35,438,921	1.61
Above 1,000,000	71	1,727,412,182	78.58
Total	**202,711**	**2,198,361,456**	**100.00**

One of the drilling rigs in use at the Olkaria Geothermal field

Strategic Course

The decisions we make today to expand our generation capacity will last several generations. Our Good-to-Great (G2G) strategy provides this clarity and has charted a path to achievement of our vision.

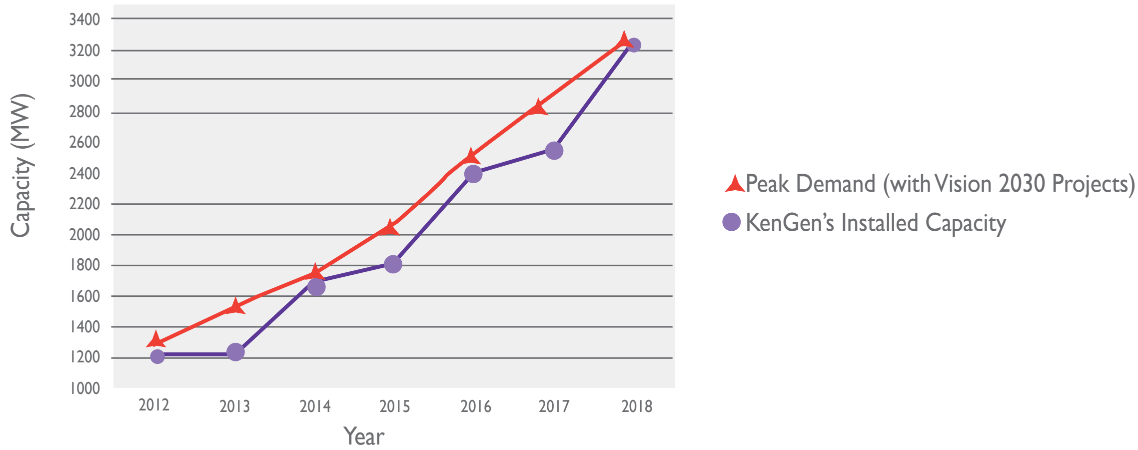
1. KenGen's Expansion Plan

The Capital Planning and Execution (growth strategy) pillar focuses on capacity expansion to support economic growth. The key deliverable is to ensure that the Company has an installed capacity of at least 3000MW by the year 2018 and to lay the foundation to expedite an additional 6000MW by 2030.

National Power Development Plan

The Company's expansion plan is based on the Least Cost Power Development Plan (LCPDP) which focuses on optimization of generation and transmission systems using the available resources. KenGen's expansion is driven by exploitation of renewable and sustainable resources to reduce overreliance on the volatile hydro resource as well as mitigate the usage of thermal power. The LCPDP is a 20year demand load forecast updated biennially by a multi-stakeholder committee coordinated by the Energy Regulatory Commission (ERC). The purpose of the LCPDP is to guide stakeholders in respect to how the sub sector plans to meet the power needs of the nation for subsistence and development at least cost to the economy. The 2011-2031 LCPDP estimates the current peak demand to grow from 1,231MW to 16,905MW by 2031. The system expansion plan ranks geothermal as the least cost generation source for base load which is in line with the Company's geothermal led strategy (Horizon II).

Projected National Demand vs. KenGen's Installed Capacity

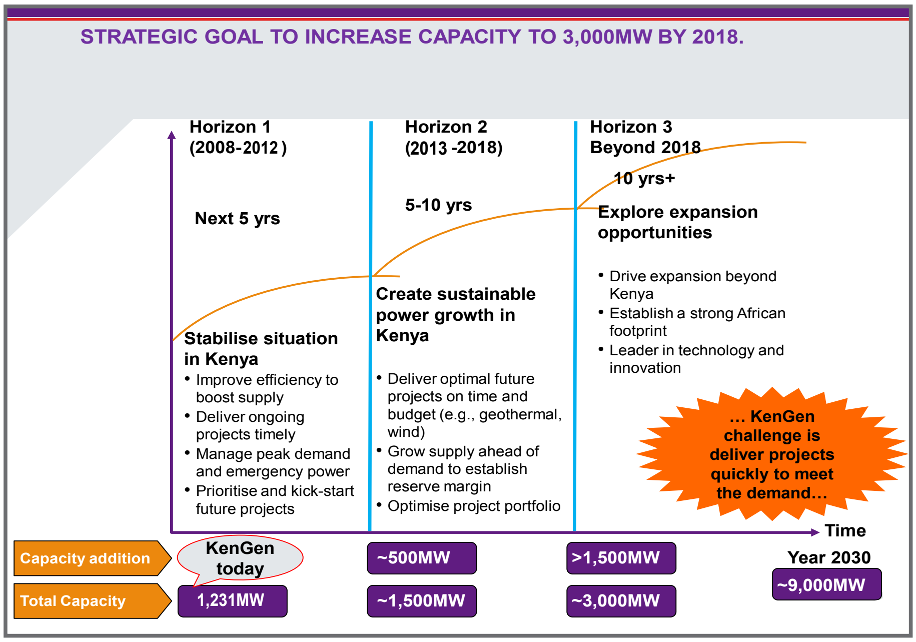


Vision 2030

The Kenya Vision 2030 is a vehicle for accelerating growth in the country into a rapidly industrializing middle income economy by the year 2030. Energy is a key enabler of the economic pillar and the flagship development projects identified under Vision 2030 will increase demand on Kenya's energy supply. KenGen as the leading provider of electric power, will through, a "Geothermal led strategy" lead the required capacity expansion in Kenya and beyond.

Going Forward

The Company through its Good to Great (G2G) identified three strategic horizons to propel the expansion programme.



Horizon I (2008-2012)

The ongoing Horizon I projects will stabilize the power supply in Kenya and are expected to be completed by the year 2012. These projects include:

Project	Capacity (MW)	Status
Sondu Miriu	60	Complete
Optimization of Kiambere	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	2.5	Complete 2012
Wellhead Generators (Pilot)	5	Complete 2012
Sang'oro	21	Complete 2012
Kindaruma Unit 3	24	Complete 2012
Kindaruma Upgrade of Unit 1 & 2	8	Implementation
Olkaria I (Unit 4&5) & IV	280	Implementation
Muhoroni MSD	80	Design
Raising Masinga Dam	81Gwh	Design
Total Capacity	684.6 MW	

Feasibility Studies

The Company continuously determines the economic, social and environmental viability of the identified projects through feasibility studies. Feasibility studies have been completed for the following projects:

- 400MW Wind
- 495MW Liquefied Natural Gas Plant
- 600MW Coal Plant Feasibility update
- 90MW Hydro Power Plant
- 28MW Municipal waste-to-energy

Feasibility studies are ongoing for the development of the greater Olkaria geothermal field and solar & wind power. Implementation of the findings of these studies have been incorporated into Horizon II & III.

Horizon II (2013-2018)

KenGen has commenced the implementation of Horizon II through the drilling of production geothermal wells, wind studies, project land acquisition and sourcing for finances. This Horizon focuses on creating a robust renewable portfolio while mitigating the risks of thermal plants with renewable energy as indicated in the table below.

Investment Category	Capacity (MW)
Geothermal Development	650
Hydro	90
Thermal (Coal & LNG)	795
Wind	170.4
Total	1,705.4

KenGen is installing 65MW of portable wellhead power generation units to utilize the already available steam awaiting construction of conventional geothermal power plants.

Horizon III (Beyond 2018)

Horizon III aims to drive expansion beyond Kenyan borders while establishing a strong African footprint as a leader in technology and innovation and will be implemented from the year 2018 and beyond. Geothermal with over 7000MW potential, Wind with approximately 4000MW potential, Coal and Natural Gas are the most attractive technologies in Kenya for guaranteed supply and least cost.

There are several African government initiatives to facilitate integrated resource planning and utilization that will create opportunities for energy trade. Among the proposed initiatives are the regional Eastern African Power Pool (EAPP), Southern African Power Pool (SAPP) and Zambia – Tanzania – Kenya interconnection.

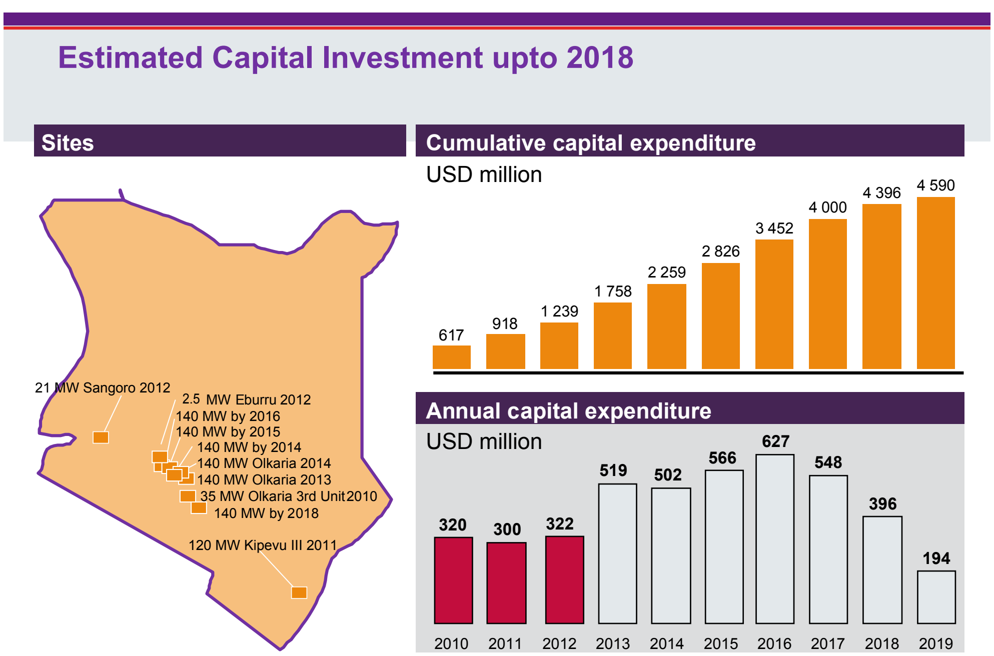
Large Scale Financing

KenGen's investment programme for building efficient, environment friendly and flexible generation capacity is the basis to grow earnings in the future and meet the country's rising electricity demand.

Table on Projects and Financing Source for Horizon I

Project	Capacity (MW)	Financing Source
Sondu Miriu	60	JICA & KenGen
Optimization of Kiambere	+24	Public Infrastructure Bond Offer (PIBO)
Ngong Wind-Phase I	5.1	KBC Bank of Belgium through GoK
Olkaria II 3rd Unit	35	IDA, AFD, EIB & KenGen
Redevelopment of Tana	20	PIBO
Kipevu III	120	PIBO
Eburru	2.5	KenGen & PIBO
Well head Generators (Pilot)	5	KenGen
Sang'oro	21	JICA & PIBO
Kindaruma Unit III	24	KfW & PIBO
Kindaruma Upgrade of Unit I & II	8	KfW & PIBO
Olkaria I (Unit 4&5) & IV	280	EIB,AFD,KfW,JICA,IDA & KenGen
Total Capacity	604.6 MW	

The Company intends to secure sufficient financing resources to complete all the projects at the lowest practicable cost and optimize the financing mix between internal and external financing.

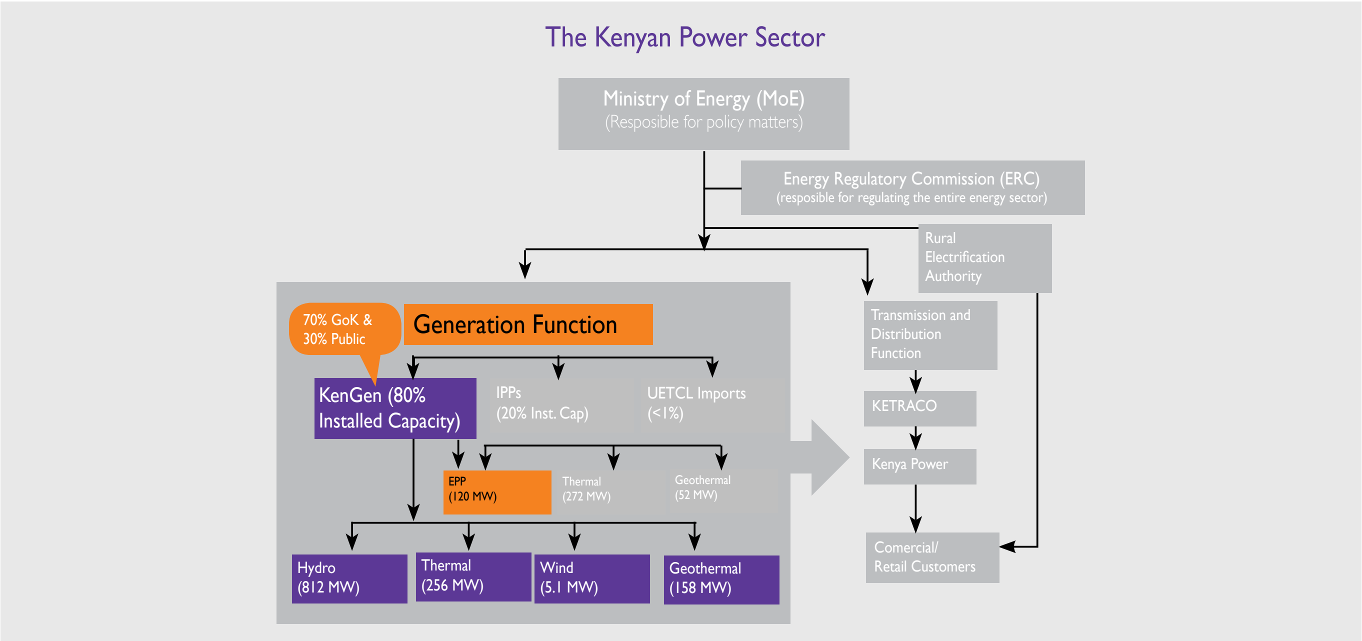


2. Regulatory Strategic Focus

KenGen's vision to be the market leader in provision of reliable, safe, quality and competitively priced electricity energy in the region is supported by three key strategic pillars notably to the Regulatory Management Pillar.

Energy Sectoral Reforms

The liberalization of the power sector in 1997, has since led to the unbundling of the vertical integrated utility to generation (KenGen), transmission (KETRACO) and distribution (Kenya Power) companies. Further, reforms emanated from the 2004 Sessional Paper which set out the roadmap for future regulatory reform in the country. This major shift resulted in the enactment of the Energy Act in 2006 and creation of the Energy Regulatory Board later revamped to the Energy Regulatory Commission (ERC).

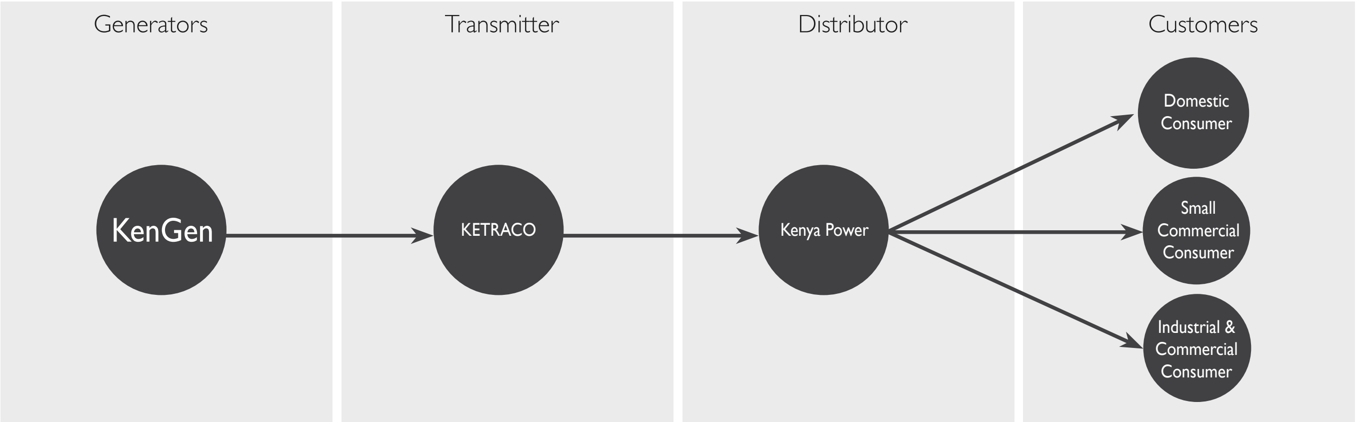


KenGen's Mandate in the Regulatory Environment

KenGen's ability to deliver on its vision strongly depends on its ability to create the right regulatory environment that favours sustainable generation growth. As a key player in a highly regulated power industry, KenGen needs to ensure the industry is well structured and regulated to ensure sustainable growth of the power industry in Kenya, for whom KenGen is the major stakeholder. Moreover, as a public listed company, KenGen has a large group of diverse stakeholders, often with very different interests.

In this regard, KenGen's mandate in the regulatory environment is targeted towards improving the Single Buyer Model while pursuing favourable policy which drives the creation of an independent system operator. This contributes to KenGen's critical role in further de-regulation of the electricity sub-sector towards achieving sustainability and provision of affordable and competitively priced power to Kenyans.

Single Buyer Model



The Regulatory Management Pillar is vital in improving contract pricing levers and implementing effective Power Purchase Agreements (PPAs) based on take-or-pay Capacity Charges

Power Purchase Agreement Regime

The Kenyan power market is characterized and operated under a Single Buyer Model. This is a system where the generated electricity is sold in bulk to a designated single buyer, in this case Kenya Power, through long-term contracts known as PPAs. This is a contract between an electricity generator (KenGen) and the power purchaser (Kenya Power). The PPA defines all of the commercial terms for the sale of electricity between the two parties, including when the project will begin commercial operation, schedule for delivery of electricity, penalties for under delivery, payment terms and termination.

KenGen first signed an Interim Power Purchase Agreement (IPPA) with Kenya Power in July 1999. The IPPA was based on Energy generated which disadvantaged KenGen in dispatch decisions. The Company was remunerated at an agreed flat rate of Kshs 2.36 per kWh for bulk generation. Whereas the dominant generation mode was Hydro, this had an adverse effect on the Company's revenues especially when there's a serious drought. Faced with the poor hydrology, the Company aggressively pushed for negotiation of a new PPA. The IPPA was subsequently replaced by new PPAs which recognized the Capacity and Energy based on the generation source.

Consequently, the Company's deliberate shift to negotiate forward PPAs for new power plants is vital to the achievement of a reasonable and fair return on assets. KenGen successfully negotiated and signed the first forward PPA for the 280MW Olkaria Geothermal Power Project, which is the world's biggest singular geothermal project to date. This inaugural forward PPA is expected to spur investor confidence in the Company's future projects.

KenGen's continued involvement in the Ministry of Energy (MoE) Least Cost Power Development Plan (LCPDP) process has ensured that the Company's geothermal strategy is fully aligned in the plan. This has further streamlined and strengthened the planning and control of new generation capacity. During the year, the Company successfully negotiated a generation tariff for Reactive Power in the Embakasi Gas Turbine. This is the first Reactive Power tariff to be negotiated in Kenya.

Factors which might influence KenGen's Future Operating Environment

Energy Policy

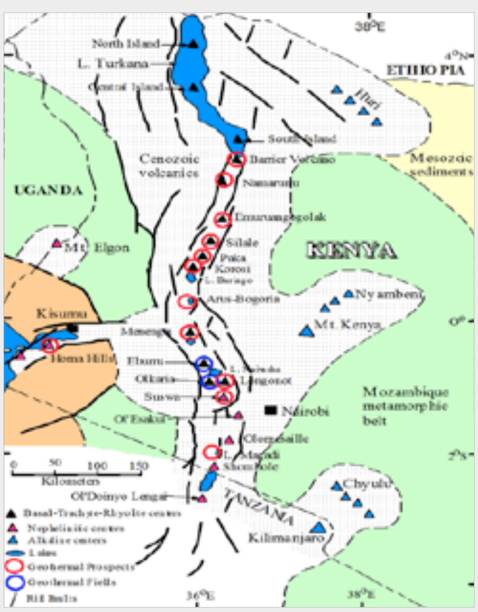
KenGen is a key participant and contributor to the review of the National Energy Policy. The key features in the Proposed Energy Policy and Revised Energy Act of 2012 include a chapter on Energy Financing which acknowledges the need for establishment of a Hydro Risk Mitigation Fund. Special focus has equally been put in the Constitution and devolved aspects of the energy services provided to the County Governments. The Energy Policy equally provides a Hydro Risk Mitigation Mechanism and Geothermal Risk Mitigation Measures that will reduce the need for pass-through cost of fuel to the retail consumer.

The Constitution

Under the Constitution and County Governments, KenGen will play a proactive role at the County level to secure energy centres. The proposed Renewable Energy Resources Advisory Committee (RERAC) provides KenGen with an opportunity to drive its geothermal strategy in ensuring provision of affordable and competitive electricity power to Kenyans.

Potential of Geothermal in Kenya

Geothermal activities in Kenya are concentrated in the East African Rift which is associated with the worldwide rift system and is still active. The East African Rift system has been associated with intense volcanism and faulting which have resulted in development of geothermal systems. Over sixteen geothermal prospects have been identified in Kenya as illustrated below:



East African Rift	Potential (MW)
1. Olkaria	2,000MW
2. Longonot	750MW
3. Suswa	600MW
4. Lake Magadi	100MW
5. Menengai	1,600MW
6. Eburru	250MW
7. Arus Bogoria	400MW
8. Lake Baringo	200MW
9. Korosi	450MW
10. Paka	500MW
11. Silali	1,200MW
12. Emuruangogolak	650MW
13. Namarunu	400MW
14. Barrier	450MW
15. Homa hills	100MW
16. Akira	350MW
Total Potential	10,000MW

The Kenya Government through the Ministry of Energy has undertaken detailed surface studies of some of the most promising geothermal prospects in the country. In addition, Government has put in place a mechanism of mitigating geothermal exploration risks associated with surface exploration and drilling for steam. This will promote rapid development of geothermal resources in Kenya by power plant developers including KenGen for electricity generation.

3. Operational Excellence

To remain the generator of choice of electric power in Kenya, East Africa and beyond it is paramount that KenGen proves itself an excellent, reliable, low cost operator.

Improving Plant Maintenance Practices

The Company is constantly seeking ways to enhance maintenance operations in a bid to enhance power generation. The operations team undertook several upgrades in the year in a bid to enhance electricity generation. Some of the key upgrades undertaken include: replacement of relays from electromechanical to numerical and upgrade of Automatic voltage regulators. Supervisory Control and Data Acquisition (SCADA), a computerised plant controlling and monitoring system is utilised on all non-thermal plants. The system accords the company real time data on key operations parameters thus leading to optimized condition based maintenance practices.

The implemented Enterprise Resource Planning aims at achieving the Company's objective to have in place an efficient, integrated platform on which the company can interface and coordinate the main internal business processes to achieve the Company's strategy. KenGen upgraded the Enterprise Resource Planning (ERP) in 2011 resulting in the integration of all the operational functions. The Plant Maintenance module enables the Operations team to track plant maintenance schedules and activities. This has resulted in readily available information on the status of equipment for accurate and timely decision making.

Planning and timely procurement of strategic spares is critical for efficient plant operations and availability. The company procures strategic spares and maintains strong relationships with its suppliers. Readily available spares reduce the duration of maintenance and shorten outage. KenGen has demonstrated the capacity to successfully conduct in-house engineering and rehabilitation works at all our operating plants. This has resulted in savings of up-to 40 % in lieu of contracting external consultants.

Strengthening Operational Processes and Structure

The evacuation of power from KenGen to Kenya Power is a critical function of the Dispatch Centre which runs the plants remotely by the use of the SCADA. This system provides information on plant availability, maintenance schedules, status of machine downs, monthly capacity, availed energy reconciliation with Kenya Power, invoice preparation and subsequent monthly reports.

KenGen has embraced the concept of total cost of ownership (TCO) as a basis for optimizing cost on purchases.

KenGen appreciates the importance of the monitoring systems which continually measure and regularly track both the financial and operational performance against the set procurement plan and budget targets.

KenGen business processes and operations continue to run on the ISO 9001:2004 Quality Management System. The Company is in the process of developing process maps which will enhance the use of service levels and cycle times with the objective of improving productivity.

The Company is embracing the concept of Root Cause Analysis in order to get to the root of recurrent problems particularly with regard to plant operations. A pilot was carried out in Kipevu Diesel Plant 1.

Quick Win Program

KenGen has engrained a quick win program which identifies and implements short term gains as a build up to the full term realisation of the Good to Great strategy.

Exemplary ideas which embody the quick win program include:

Quick Win	Description	Gains Realised
USE OF GEOTHERMAL BRINE FOR DRILLING	Brine is the resultant liquid that is produced from Geothermal wells. Use of geothermal brine for drilling has reduced use of fresh water in the drilling operations by 40%.	• Significant savings due to reduced water bills • Drilling rate for six rigs accelerated due to utilisation of brine instead of water • Improved water conservation
CONVEYOR BELT FOR SODA ASH LOADING	This innovation changed the method of transmission of soda ash at the Olkaria II Power Station from manual to mechanical conveyance.	• A one off saving of Kshs.3.2 million because of constructing the conveyor belt system in-house • Annual savings in terms of labour (equipment operators and loaders) and equipment (forklift) of Kshs.2.5 million • Quality of soda ash has been maintained and operational time of the dosing reduced • Fabricated Aluminium ridge making machine and Aluminium rolling machine as a by product of the conveyor belt system

4. Talent Management

Employees are critical enablers of our sustainability and in order to execute the organizational strategy and attain the corporate goals, there has been need to align key processes, systems and employees throughout the year. The focus has been on improving our procedures and how we work, to ensure that we harness and manage talent. In today's world, it is becoming increasingly challenging to attract and retain the best talent in the market. KenGen is therefore committed to ensuring that there is a talent pool and skills mix to sustain organizational performance and provide employees with opportunities for career growth within the Company.

Linking Human Capital with Strategy

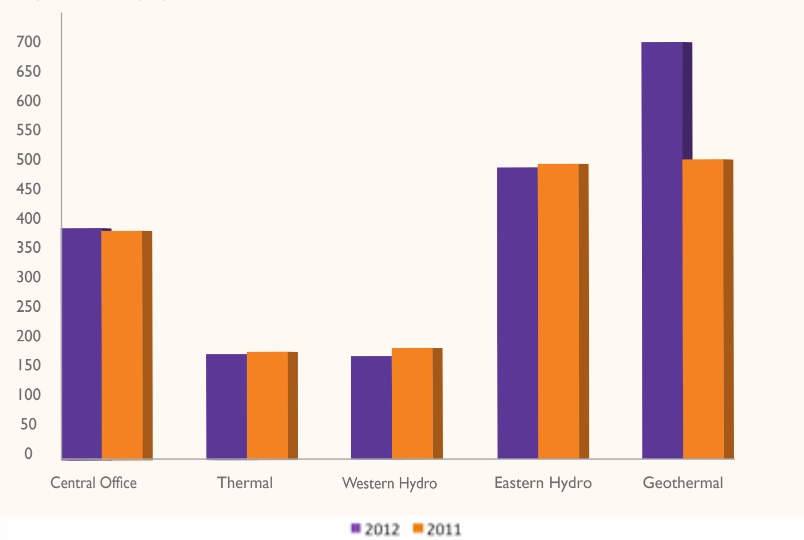
By the year 2018, KenGen expects to have an installed capacity of 3,000MW and over 50 per cent of this will come from geothermal. We continued to strategically build our human capital to fast track the delivery of projects through recruitment, training and development, culture change and performance management.

Human Capital Readiness

Forecasting human capital needs is one of the key activities for executing business strategy. To meet the business objectives and scope of activities, and in order to address the gaps between the workforce today and needs of tomorrow, the optimum staffing requirements of the organization were reviewed during the year with the aim of delivering the right number of the right people for the business. The increasing demand for electricity means that attracting and retaining skilled and talented people is vital to meeting and sustaining our business objectives and overall performance targets. KenGen is committed to making the Company the preferred employer by attracting, engaging and developing the most talented workforce in the industry.

Our strong staff complement provided the competitive advantage to deliver the strategy and meet shareholder's expectations for growth and financial success. Our employment practices are designed to help us create the right workplace culture in which employees feel valued, respected, empowered and inspired. To supplement our existing internal capability, we target experienced and skilled professionals in the external market as well as intake of graduates to create an internal talent pipeline for the future. During the year, KenGen brought on board experts in different fields in order to meet our strategic workforce requirements and create sustainable power growth in Kenya. The workforce has grown in the last year from 1,663 to 1,829 as at 30 June 2012.

Comparison - Employee Statistics 2011 & 2012



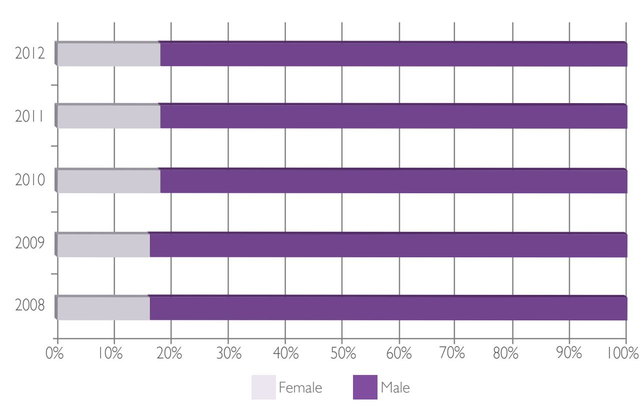
*Central Office comprises Gas Turbine, Ngong Wind, Garissa, Central Engineering Workshop and Head Office

Equal Opportunities

KenGen has remained an equal opportunity employer. We recognize the importance of the contributions of everyone in the society. More specifically, there is need to provide a framework dealing with gender inequalities in the workplace. We have strengthened our commitment to equal rights and opportunities for all and address gender imbalances by implementing a gender policy to serve as a guideline.

When KenGen rebranded in 1997, the gender ratios were at: 1:11. In 2007, when we instituted a new strategy, we proactively made a conscious effort to improve our gender mix to 1:5. We further intend to recruit professional and qualified women to take up more positions in the Company.

Gender Statistics



KenGen values diversity within its workforce and it seeks to prevent discrimination to ensure the equal opportunity and dignity at work. We have established a mechanism for addressing social barriers that impede persons with disabilities from attaining their full and equitable integration and inclusion into the workplace. This has been done by raising awareness on the rights of persons with disability in addition to providing facilities that meet their special needs.

Employee Wellness

The Company is committed to creating an inclusive work environment where everyone is treated fairly, with dignity, respect and without discrimination.

KenGen undertakes every reasonable measure to create awareness and establish support groups to reduce prevalence and the consequences associated with HIV & AIDs. We continued to invest in the care and support for persons living with HIV/AIDS.

Various programs were undertaken aimed to prevent and reduce infections and to improve the quality of life. To achieve this, the Company provides free Anti Retro Viral (ARV) drugs to members of staff with HIV/AIDS and nutrition counselling.

In addition, continuous Voluntary Counselling and Testing (VCT) and behaviour change campaigns are done. Sixty eight peer educators were trained during the year to provide psycho-social support to those infected and affected as well as create awareness of the pandemic in the Company.

Sensitization on issues to do with drug and substance abuse was conducted in all the five business areas.

The Company continued to support sporting and health-related activities e.g. health talks, inter station sports matches during the year and employees are encouraged to participate.

People Development

Learning & Development

A key requirement for achieving the strategic goals and objectives of the organization is a skilled workforce. To achieve this, training and development remained a major focus area at KenGen.

We aim to continuously develop employees using a range of learning opportunities and tailored development programs to build capabilities which include external and on-the-job training, team building, workshops and seminars.

The training and development programs have been used to support the development of new and existing employees, in accordance with individual development plans, to ensure optimal performance. Over 1,000 employees attended various courses.

Performance Management & Leadership Development

Our performance management process ensures employees have business-aligned objectives. The performance management cycle begins with the establishment of clear targets which are continuously assessed and appropriate action taken to address gaps.

Providing leaders with management skills is fundamental for the organization's success. During the year, KenGen conducted Leadership programs for 'Leading High Performance Teams' and 'Leading for Optimal Performance' to enhance performance.

Approximately 271 team leaders across all functions attended the programs which focused on the development of fundamental leadership and management skills.

Visiting UN Secretary General Ban Ki-moon plants a commemorative tree at the Olkaria Power Station.

Sustainability: 'Generation to Generation'

We believe that our existence goes beyond adding capacity to the grid; it is about incorporating an ethic of social responsibility into our business model and taking into account how our decisions affect all stakeholders.

Sustainability

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 entails 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 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

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

Titus Mbathi, Chairman

Edward Njoroge, Managing Director & CEO

Globally, sustainable use of resources is today's mainstay. Resources are the backbone of every sphere of human life, yet they are fast getting depleted. No doubt, the way we use our current resources will have an impact on the future of our Company and the country as a whole.

We must therefore use our resources in a manner that meets the present requirements without compromising the needs of future generations. We should utilize our resources optimally and minimize environmental degradation in order to remain sustainable "from generation to generation".

As a forward-thinking company, we are moving towards the use of renewable resources for power generation, with a major focus on geothermal, which is abundantly available in the Rift Valley. Currently, we are generating close to 1000MW of power from renewable sources, a figure bound to change on completion of our ambitious 280MW geothermal project in 2014.

This will not only reinforce KenGen's position as the leading producer of green energy in the region, but also the largest generator of geothermal power in Africa. Hand-in-hand with our green energy strategy is optimal utilisation of resources. For us, this means doing more with less. It is utilising the same or fewer resources to achieve more as exemplified in Olkaria where we are putting up a geothermal leisure centre to utilise by-product steam from power stations before it is re-injected to ensure renewal of the geothermal resources for sustainable generation of power. Similarly, we are upgrading some of our power stations to optimise their output.

Upgrading of plants has been carried out in Tana, Kiambere and Kindaruma, bringing our generation mix from green energy sources to a respectable 79%. Leading by example, KenGen is driving the green energy agenda by embracing clean energy and supporting environmental conservation programs across the country.

This will put Kenya on the path towards a green economy and drive the country in achieving its objectives of being a middle income economy by the year 2030. It is our belief that by making our power generation process sustainable, we will deliver value to our shareholders by driving down costs and maximizing earnings, and enhancing brand value thereby ensuring our business remains sustainable.

3. Working with Communities

As a Company, we believe in good neighbourliness and making a difference in communities in which we operate. Through our Corporate Social Responsibility (CSR) program, we support various community-targeted initiatives aimed at improving the living conditions. During the year, KenGen continued to provide support to community projects in various parts of the country. Environment, education, sports, peace, famine relief, health and culture remained the focus of the company's corporate social responsibility programme.

Education

The Company supported various education initiatives which included development of educational infrastructure as well as support to the university and secondary scholarship programme. During the year, KenGen gave scholarships to 18 students in secondary school and 18 in university as a way of providing opportunities to bright, disadvantaged children.

In addition, KenGen contributed to infrastructure development at Iseneto Primary School in Narok, Kenya Anglican University, St. Anthony Kajimbo School in Kisumu and Lorogon Primary School in Turkwel. At Mukurweini's Rev. Muhoro School for the Deaf, we supported the upgrading of a windmill and installation of solar panels.

Environment

In line with the Company's "from Generation to Generation" sustainability theme, we expanded our support to environmental conservation. The purpose of our conservation efforts is to ensure sustainability of power generation, particularly hydro, and a clean environment for future generations. It is for this reason that various initiatives, which include the Hell's Gate Wheelbarrow Race, Misitu Golf Challenge, Mr. Kenya Extreme Sports Challenge and Energy Management Awards were supported. In this effort, the Company partnered with various organizations which included KWS and Kenya Manufacturers Association.

Peace-Building

North-western Kenya has been plagued by years of insecurity occasioned by conflict stemming from a scramble for limited resources by various communities in the region. This has led to underdevelopment and vulnerability among the people, who largely depend on pastoralism for their survival.

As part of its effort to bring peace to the region, KenGen provided support to the Tecla Loroupe Peace Foundation for an initiative dubbed "Peace through Dialogue". The support helped the foundation conduct inter-community meetings in an effort to find lasting peace.

Relief

During the last financial year, Kenya experienced what has been termed "the worst drought since 1950s" with about 400,000 families facing starvation in Turkana alone. Indeed it was a sad period for the country as local TV stations and press were inundated with pictures of starving children and elderly people.

Consequently, KenGen joined hands with other organizations to alleviate the suffering by donating money to the "Kenya for Kenyans" initiative to enable it to provide short term response (emergency food relief and water trucking) and medium term solutions (rehabilitating or sinking boreholes and setting up greenhouses to improve food security). In addition, the Company supported the Nation Media Group's Kiliclimb which sought to raise funds towards long-term food security initiatives proposed by the Kenya Red Cross as an extension of the "Kenya for Kenyans" initiative.

Sport

KenGen believes in a healthy society promotes sports as a way of helping Kenyans exploit their talents and stay fit. Key among sporting activities supported during the year was the KenGen Golf Day, Nakuru Open Squash Tournament and the Mwea Classic Marathon.

Charity

One of KenGen's CSR objectives is to improve the living conditions of various communities, particularly those who live near its installations. The Company provided support to Cabesi Project, which promotes the production and marketing of local honey and wild silk among marginalised communities in north-western Kenya as a way of alleviating poverty. At the same time, the company supported the Sigona Charity Golf Day to assist vulnerable people who live near Sigona Golf Club.

Other Initiatives

KenGen supported various health initiatives including the Mater Heart Run and the Standard Charted Marathon. The Company also supported the Kiambere Cultural Day and NACADA, a government agency that fights drug abuse in the country.

4. Touching Lives

Optimising Geothermal Resource

Peketsa Mangi, Chief Consultancy and Research Officer, cannot hide his excitement when he is asked about the KenGen geothermal leisure centre or direct use and demonstration centre a as it is popularly known in Olkaria where it is situated. "This is the first of its kind in Africa. The only other one I know of is in Iceland," he says.

He enumerates possible uses of brine which, he says, could earn the company additional income and create employment. "It can be used for leisure, farming, fish farming and refrigeration. There are many choices and it is up us to prioritise." In addition to re-injecting brine to ensure the renewal of geothermal resources, KenGen is exploring other uses. Currently, it is supplying a nearby company with some for use in its flower farms as it is known to provide carbon dioxide which is necessary for photosynthesis.

The construction of the leisure centre, which began mid last year, is at an advanced stage and is expected to be completed by December. It will feature spa, a sauna, changing rooms, a conference room, a restaurant, and a museum. Four ponds are almost ready while landscaping is ongoing. The second phase will comprise bigger conference facility and accommodation. Once steam has been used for generation, it is channelled to the centre for use in the spa, the sauna and even in the restaurant.

"The company invests a lot of resources in geothermal exploration and we thought it would be a good idea to look beyond electricity generation and tap into other uses of steam. The direct geothermal resource direct use and demonstration centre is therefore an outcome of our effort to optimise our resources," he says.

The leisure centre, he says, will add value to Hell's Gate National Park by providing tourists with additional leisure activities to engage in. "The Park will not just be about game drives. It will also provide other exciting and environment friendly activities for tourists," he says.

Mangi says the decision to set up the leisure centre was informed by the fact that the company's geothermal plants are located in a national park which attracts tourists, and proximity to Nairobi. The company also intends to set up a demonstration vegetable farm to show farmers how to use brine to increase their yield.

According to Mr. Mangi, diversification of uses of brine is a step by the company to take the lead in promoting optimisation of resources in Africa.

Clean Development Projects at KenGen – Leading the Way

Humanity is under threat due to the adverse effects of carbon dioxide and other green house gas emissions collecting in the atmosphere and heating up the earth. KenGen has embraced the spirit of Kyoto Protocol (KP) which seeks to establish a global emission reduction regime through Clean Development Mechanism (CDM). It is one of the market mechanisms defined under Article 12 of the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC) (1992), which provides the framework for stabilization of green house gases concentration in the atmosphere and preventing Climate Change.

The Kyoto Protocol (KP) is a legally binding addition to the 1992 UNFCCC treaty. CDM is intended to meet two objectives: assist developing countries in achieving sustainable development and in contributing to the ultimate objective of preventing dangerous climate change; and assisting developed countries in meeting cost effectively their greenhouse gas emission reduction commitments as defined under the Kyoto Protocol. The developed countries meet part of their emission targets/caps by buying "Certified Emission Reductions" or carbon credits from CDM emission reduction projects in developing countries. The CDM process involves preparation of a project identification report on which basis the designated national authority, in this case the Officer at the National Environmental Management Authority (NEMA) gives an approval for the project to be undertaken as a CDM Project.

The project proponent (PP) then prepares a project design document (PDD), which is validated by a designated operational entity (DOE). Upon validation of the PDD, the document is presented to the Executive Board (EB) of the United Nations Framework Convention on Climate Change (UNFCCC) for approval. Once approved, then the Project is Registered and enters the monitoring phase in which data is gathered for one year, essentially to proof that the emissions are being avoided as expected in the PDD. At the end of one year, a DOE is appointed to carry out verification of the project.

KenGen is the pioneer company in the Clean Development Mechanism (CDM) project development process in the country. It began exploring the possible benefits of CDM from as early as 2000.

During the 2006 Carbon Expo held in Cologne, Germany, KenGen had its first discussion on CDM project development with the World Bank, which expressed willingness to consider its projects, hence commenced the relationship between KenGen and the World Bank on CDM project development.

Two CDM projects have since been registered by the UNFCCC, and the World Bank has provided technical support on some of the current CDM projects. One is Olkaria II Unit 3 Geothermal Expansion project and the other re-development of Tana Power Station, making KenGen the company in Kenya with the leading number of registered CDM projects.

The two projects will reduce approximately 178,000 tonnes of carbon dioxide per year and earn KenGen revenue of approximately KES 100M annually. In addition, the projects are being developed under the Clean Development Carbon Fund (CDCF) where an extra one US$ per CER is paid for community development projects. Some of the community projects under implementation at Olkaria include construction of a water pan,, extension of a water pipeline and construction and equipping of schools.

There is a team of verifiers currently in the country to verify the emissions reductions from Olkaria II unit 3 project. If the process is successful, KenGen will start earning revenue from Olkaria II 3rd unit project before the end of 2012. In order to accelerate development of CDM projects in the country, there is need for increased awareness of CDM and strengthening of national capacity for well prepared projects, formation of Carbon Centre to provide carbon project development support and consultancy. KenGen is in the process of setting up the centre before the end of 2012 and collaboration with other project developers, financiers, and institutions in the voluntary and compliance carbon markets

Racing to Conserve Hell's Gate

"To Hell's Gate on a Wheelbarrow" race is part of a national initiative by the Kenya Wildlife Service (KWS) to provide every park with a unique event to increase community participation in conservation. The Naivasha ecosystem is home to more 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 per cent roam freely on community land. This has resulted in human -wildlife conflict.

Hell's gate is the only national park in Kenya where one can enjoy the park on foot. Attractions in the park include spectacular gorge walks, hot springs, nature trails, raptor nestling cliffs and the Fischerman's tower, the Gorge where "Tomb Raider" by Angelina Jolie was filmed. Wildlife include buffalo, zebra, eland, hartebeest, Thomson's gazelle and giraffe, baboons, serval cat and klipspringer antelopes, and prolific birdlife features 103 species

The Hell's Gate Wheelbarrow Race's primary objective is to raise funds for the construction of a fully equipped Conservation Education Centre in the park for the mobilisation and sensitization of the local communities on the importance of protecting and conserving wildlife, as well as educating them on alternative wildlife enterprises for their economic benefit. So far, KSh.12 million has been raised, half of which has been KenGen's contribution. One third of the money has already gone into mobilization of communities and buying conservation extension equipment. The rest of the money will be used to commence the construction of the centre, and Kenya Wildlife Service has planned a launch and ground-breaking ceremony to take soon.

Meet the KenGen Straight "A" Girl

There is nothing to warn you of an academic giant when you meet young, innocent and almost shy Pythia Kairu. This is especially so if you are meeting her in a social club at Lakeview estate in Olkaria. We settle on an isolated corner of the social hall, as I begin to probe the girl. Even before we settle down I start interviewing her, my journalistic roots betraying my passion for the story of a girl whose academic exploits I have already been warned about.

I have also been tipped of an incident that happened almost six years ago. My sources intimate that back then, KenGen's Managing Drector &CEO had toured Olkaria to inspect ongoing projects. He, however took a detour and went to Mvuke Primary, a school sponsored by KenGen, to see how it was faring. It's here that he uttered a statement that sounded like music to the ears of young Pythia, who was in class six."Whoever scores more than 400 marks in the KCPE will be fully sponsored by KenGen for his or her high school education."

The young girl didn't understand why that target was such a big deal. And when she sat for her KCPE two years later, she scored the 400 marks, and added one more to be on the safe side to make 401 marks. Now it was Eddy Njoroge's turn to do his part. With her school fees provided for, she joined Naivasha Girls High School, where she sat for her Kenya Certificate of Secondary Examination, in which she got straight "As". With such a strong performance, Pythia has now set her eyes on her dream career: becoming a neuro-surgeon. This, as she tells me, has been inspired by the story of of the famous American neuro-surgeon, Ben Carson.

The first born in a family of four children is keen on setting a high track record for her siblings. Her passion is to stop suffering due to neurology-related illnesses, which are expensive to treat. As I shake her hand in admiration and as we part, she tells me to pass her appreciation to KenGen and the Managing Director & CEO. Without your company's support, perhaps my education record would be different" she says.

Roofing of Changamwe S.D.A. Secondary School

Part of the repaired roof

Changamwe SDA Secondary School in Kipevu, Mombasa, lost its classroom and dormitory roofs as a result of heavy downpour late last year. However, the iron sheet roofing was already dilapidated and was leaking badly as they had not been replaced since 1959. Owing to the situation, the school's 120 students were always at the mercy of the elements.

The school's Principal requested KenGen for assistance before the school reopened in January 2012. As a result, KenGen replaced the school's dilapidated roofs at the cost of Kshs.1,132,800. The repairs were completed in record two weeks. The school's management has thanked KenGen for the support.

Library Brings Enlightenment

Sondu Miriu Library, built with the support of Shisei Sakoda, a Japanese engineer working on KenGen's Sondu Miriu power project, has brought enormous benefits to the local community. Started in June 2001 and managed by Hera Women's Self-Help Group, the library has brought enlightenment to the area. The library was started with the objective of giving children a better chance in life through provision of books to improve their academic performance. Adults too go to the library to read books on various topis which include business and agriculture.

According to the self-help group, the library has been recording an increase in the number of visitors, reaching 6000 in 2008.

"The library has experienced tremendous achievements," says chairperson Mrs Celestine Agan, adding that it has helped promote a reading culture among school children. "Pupils who excel in examinations always report back that it is through our services that that they attained high grades,' she says.

According to the Chairperson, children spend their time in the library during school holidays instead of loitering in the market. Recently, KenGen donated books worth Kshs. 100,000 to the library.

Olkaria Launches Stakeholders' Coordination Committee

A stakeholders coordination committee (SCC) that will ensure interests and concerns of the ambitious 280MW geothermal project in Olkaria are addressed was launched recently. The SCC which draws heavily from the local community in Olkaria, is tasked with strengthening the relations between KenGen and the neighbouring communities.

Once completed in 2014, the 280 MW project will increase electricity capacity in the country by a further 25 percent.

The committee, which will be headed by the KenGen Corporate Affairs Manager, comprises leaders from various groups of the local community as well as top management within KenGen. Key issues that the committee will handle include resettlement of people affected by the Olkaria expansion, addressing health and environmental concerns, developing programmes that will improve the livelihoods of the community and creating employment opportunities for the local communities.

Speaking during the launch, Councilor Peter Wanjala Palang'a representing community leadership around Olkaria thanked KenGen for recognizing the need to form the committee and have constant dialogue with the people of Olkaria.

KenGen Managing Director and CEO Edward Njoroge said the Company was keen in having all stakeholders benefit from its projects. 'The stakeholders' coordination committee will ensure all aspects of the project - health, environmental or economic empowerment - are discussed in a round table that brings in all parties.

Generating Hope

By the time she lost her husband in 2006, 33-year-old Alice Awour Omondi's life had become a long nightmare: She had suffered from one ailment after another, which had stopped her from active life. "I was often ill and had lost all hope. One day I decided to take an HIV test. That's when I walked into the Kusa Voluntary Testing and Counselling Centre," she says.

The results were devastating: She tested positive for HIV, the virus that causes AIDS. "I saw my world crumble before me. I didn't know how to deal with it but the Kusa VCT staff gave me a shoulder to cry on and hope for the future," she says.

At the clinic, she was nursed back to health and provided with psychosocial support to help her live positively with the disease. "The HIV virus can be very devastating if an infected person is not helped. I was lucky to have been assisted by the Kusa VCT Centre, otherwise I would be dead by now," she says.

Alice, a resident of Kajimbo village in Nyakach District, was later offered a job at the VCT centre as a patient tracer. Her work entails follow-up on patients to ensure drug adherence as well as provision of psychosocial support and home-based care for the bedridden. "I was helped and I feel it is my duty to help others to live meaningful lives despite their HIV infection. I want to give them hope and help them to understand that there is life beyond the HIV virus," she says.

Alice also heads a support group which comprises 14 women and 20 children, who are either orphaned or infected. The support group was formed with the help of the KenGen-supported VCT to provide psychosocial support to infected people as well as take care of orphaned children.

According to Alice, the support group is a source of hope for the members. "At the support group meetings, members discuss and collectively find solutions to their problems. Sharing our challenges helps us to realise that we are not alone. Other people too have similar issues. Children without parents also get their issues addressed by the group," she adds. The KenGen-assisted Kusa voluntary testing and counselling centre (VCT) has 250 HIV/AIDS patients who have been enabled to access the life-prolonging anti-retroviral drugs while 530 others are provided with care.

Alice says she is grateful to KenGen for giving HIV/AIDS patients a second chance in life. "Without the care they receive from the VCT, they would either be bedridden or dead," she says.

Transforming a Village

Until 1998, Sondu in Thurdibuoro Location of Nyakach District was a remote, sleepy village with only the most basic infrastructure. Roads were dilapidated while school facilities were in a bad state. Worse still, the village suffered acute water shortages and waterborne disease had become endemic. According to the Area Chief Mr. George Omulo, the biggest challenge was accessing basic services. "There were no roads and water, while schools were in a poor state," he says.

However, with the advent of Sondu Miriu power station, the village has undergone a transformation! Today it boasts good roads, modern schools, access to clean water and better health services. Facilities that have been rebuilt by KenGen are Thurdibuoro Primary School, AIC Thurdibuoro Secondary School, Aomo Primary School, Apondo Primary School and AIC Thurdibuoro Church.

In addition, the village now has electricity and better standards of living, thanks to improved access to markets and availability of electricity which has expanded business opportunities. "Anyone who visited the area before the construction of the power station cannot tell it is the same one: There have been many changes. Sondu has transformed from a remote village to a modern setting where residents have access to good infrastructure and services,"
says Mr. Omulo.

According to Mr. Omulo, KenGen support has not only impacted the people's standards of living, but also changed their thinking due to interaction with people from different parts of Kenya and even outside the country. "Their world has expanded and they now see beyond Sondu. They no longer want to live in their small cocoon but they want to exploit their potential to fit into the global arena. Indeed, KenGen has proved that with a little support, people can take charge of their lives and shape their destiny," he says.

He cites welding as one of the businesses that have spring up as a result of Sondu Miriu power station. "Perhaps without Sondu Miriu power plant, these people would still be without electricity and their ambitions of owning electricity-dependent businesses would have remained only a dream. Perhaps they might not even have discovered their talents and potential if KenGen did not create a conducive environment for them to stretch their imagination and find out what they could do with electricity and other services provided by the company," says Mr. Omulo.

Until 2009 the people of Sondu had to trek several kilometres each day to the river to fetch water. However, with the support of KenGen, clean water has become available to more than 20,000 Sondu residents. Some community members have taken advantage of water availability and turned to agriculture and fish farming. One of them, Mr. George Ndege, has used the water to grow rice.

KenGen is also providing scholarships to bright children from disadvantaged families. John Ndolo's son, Ogola Ndolo, benefited from a KenGen scholarship to pursue a degree in electrical engineering at Moi University in 2003. Today, he works for Sony Ericson in Tanzania and pays for his siblings' education. "I cannot thank KenGen enough. It has taken the burden off my back by ensuring my son completes his education and gets a job to support the entire family," says John.

So far, 22 students from Sondu have benefited from the KenGen university and secondary school scholarship programme. In addition, KenGen has also improved communication in the area by constructing modern roads and turning impassable ones into all-weather roads. "These means there are better opportunities as people can easily transport goods to and from the market," says Mr. Omulo.

The Company has also provided casual employment opportunities to the youth from the area, in addition to enabling Kusa Health Centre to operate 24 hours by supplying electricity. Besides the support to the clinic, the company assists the local voluntary testing and counselling centre (VCT). Owing to the KenGen support, 250 HIV/AIDS patients have been enabled to access the life-prolonging anti-retroviral drugs while 530 others are provided with care.

By opening up Sondu and improving infrastructure, KenGen has contributed to the attainment of the millennium development goals and put us on the path to self-reliance, Mr Omulo concludes. According to KenGen's Chief Engineer in charge of Sondu Miriu Power Station, Mr. Alfred Abiero, some members of the community have used KenGen support to set up successful businesses. "That is what sustainability is all about: Helping people to fish instead of giving them fish," he says.

5. Infrastructure Development

Section of the 6km Sondu - intake road built and maintained by KenGen

KenGen allocates a substantial portion of the project funds of putting up a power generating plant to the development of infrastructure and civil works.

This infrastructure development includes opening up of remote and rural areas by constructing tarmac & all weather access roads, social amenities-dispensaries, social halls, swimming pools, piped water, water kiosks, soil erosion prevention barrier/sand dams and playing grounds.

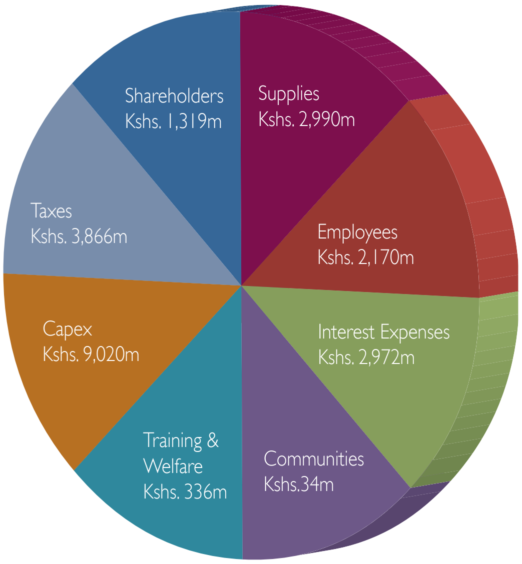
Further, KenGen continues to maintain and rehabilitate the infrastructure by re-carpeting the roads and rehabilitating the social amenities which are accessible to all members of the public.

The roads have accelerated development in the respective regions as demonstrated in the Rachuonyo area of Nyanza County courtesy of the Sondu Miriu Power Station, Machakos and Mbeere Counties, courtesy of the Seven Forks power stations, Naivasha County courtesy of Olkaria Power Stations and Turkana & Pokot Counties courtesy of Turkwel Power Station.

6. Resource Optimisation

Generator for Generations

KenGen has been a model of sustainability since 1954. The Company recognizes that sustainability of the business environment is vital for the mutual co-existence with the stakeholders through a responsible corporate behaviour.



Contribution to the Economy

KenGen has remained a key player in the Kenyan energy sector and the economy as a whole. During the year under review, the company continued to make a significant contribution to economy as it carried on with its business and corporate responsibility activities. KenGen opened up remote and rural areas by constructing tarmac & all weather access roads, social amenities-dispensaries, social halls, swimming pools, piped water, water kiosks, soil erosion prevention barrier/sand dams and playing grounds. KenGen remained among the top ten tax payers in the country.

Creating Cleaner Power

KenGen's deliberate effort to reduce dependence on hydro power is evidenced by the development and deployment of Geothermal generation. During the year, the Company successfully signed the Power Purchase Agreement for the 280MW Olkaria Geothermal Project.

KenGen's sustainable generation platform will be based on a greatly expanded Geothermal capacity, increasing from the current 157MW to 1067MW by 2018. Wind capacity will equally complement the creation of clean power through the establishment of 150MW in Isiolo by 2016.

Provide Affordable and Sustainable Power

In line with the Least Cost Power Development Plan 2011-2031, geothermal power generation is competitively ranked first both under Base Load and Peak Load. In this regard, KenGen competitively acquired two electric-powered rigs with a drilling profile of 5000m which is a significant shift from the diesel-powered rigs with drilling depths of 2000m. The deeper wells have an estimated production profile of approximately 5MW-7MW which is a considerable move in the utilisation of available resources from the existing well capacity of 2.5-3.5MW.

This translates to the reduction of geothermal generation costs through the use of KenGen acquired modern rigs instead of contracted rigs and the drilling of deeper high capacity wells.

Technology Upgrade

KenGen is using modern technology to explore for geothermal energy. Modern well sighting technologies such as usage of remote sensing guarantees high success rate for adoption of directional well drilling.. Directional wells have a success rate of 86% over vertical wells. Since 2007, KenGen has drilled over thirty directional wells with proven superiority over vertical wells in terms of the following:

i. Reduced earth works where the terrain is rough. The earth works involve access roads, sites, laying water pipelines, drilling water ponds, site rehabilitation, brine disposal, well testing, and road upgrading costs during power plant construction.
ii. Reduced Water Supply Costs through use of brine for drilling mud
iii. Reduced Rig relocation time and cost
iv. Overall environmental impact is reduced since few well pads are prepared
v. Reduced Steam Gathering system cost. Centralized brine separation is largely achieved, which maximizes hot reinjection flexibility and also reduces the number of separators required. The collected centralized brine can be used for drilling wells on adjacent well pads.

Establishment of Direct Use & Demonstration Centre at Olkaria & Eburru

Geothermal energy is used in electricity generation and other direct uses like greenhouse heating, carbon dioxide enrichment in greenhouses, hot bathing, sauna or steam bathing, space heating and space cooling, fruits or crops drying, and skin healing. In Kenya, direct use of geothermal energy has been applied to a small extent in the green houses where the steam is used to heat the greenhouses to regulate the temperatures.

The carbon dioxide present in the steam is also used to enrich the carbon dioxide content in the greenhouses for better plant growth. KenGen is considering tapping this potential market for direct use especially in homes, hotels, and flower farms.

The Company also plans to establish the same at Eburru along with a museum that will host artefacts, models, posters, and brochures to showcase the history of direct use as well geothermal development in the country.

Further, the Centre at Eburru will provide leisure and entertainment to the domestic and foreign tourists. The Centre will also showcase direct use applications to potential customers to which the Company can sell steam or brine for direct use.

We're moving to meet the challenge to make our industry sustainable.

7. Quality Assurance

Compliance to Standards

In 2004, KenGen became the first Kenyan parastatal to receive ISO 9001:2000, Quality Management System (QMS) certification, an internationally recognized standard for business processes and managerial integrity.

Consequently, KenGen achieved the status of being the first energy utility company in East and Central Africa, joining the league of elite firms worldwide that adhere to the internationally respected management practices. Recertification to ISO 9001: 2008, QMS was awarded to KenGen in 2009.

KenGen subsequently pursued ISO14001:2004, Environmental Management System (EMS) certification which was awarded in 2009. This reinforced KenGen's commitment to long-term environmentaly sustainable development consistent with national and international standards in generation of safe and reliable electric energy. Rec-ertification Audits were concluded in early June, covering all business processes awaiting recommendation from the certification body.

Safety

KenGen embraces an unwavering commitment to the health, safety and welfare of its employees, stakeholders and the environment. This core belief is embedded in our corporate culture and integrated into every aspect of KenGen's operations. The company is in full compliance with all legal and statutory requirements.

This means ensuring that all certifications are maintained and up-to-date and that employees adhere to safety regulations. Programs undertaken to promote a safety culture include health and safety weeks which serve as awareness builders, as held in the Thermal, Geothermal and Eastern Hydros business areas, and emergency drills contributing to preparedness and process safety.

Safety Audits

Safety is embedded as a key value by the company, hence steps are taken in ensuring that appropriate audits and inspections are conducted regularly to comply with legal, regulatory and corporate requirements. Audits/inspections conducted in the year include:

- Energy Regulatory Commission (ERC) safety audits conducted in all major areas as empowered by the Energy Act no. 12 of 2006 section 6(c).
- National Environmental Management Authority (NEMA) environmental audits within all operational plants which include safety elements such as air quality and noise levels.
- Annual statutory safety audits as required by the Directorate of Occupational Safety and Health Services (DOSHS) as well as bi-annual internal audits.
- Monthly plant and facility inspections are carried out by Health and Safety Committees at the respective operational areas to enhance operational discipline amongst employees.
- Employee-focused safety and health inspections are conducted as scheduled to maintain our promise to meet or exceed regulations as well as our standards. The corporate safety culture is founded on the belief that every employee is responsible for their safety and each workplace incident is preventable.

Risks

A Risk matrix and register has been developed for potential emergencies at all operational areas in line with the objective of stepping up our emergency preparedness and business continuity. Some of the risks identified include Floods and oil spills. The potential risk and emergency areas for KenGen have been identified to enable the organization put up adequate mitigation measures.

Statistics

Attendance of occupational health and safety meetings: 82% Fist Aiders: 1 for every 11 employees against a global standard of 1 for every 10 Safety related trainings: 12 conducted in the year.

8. Environment & Social Impact Mitigation

Environmental & Social Impact Assesment (ESIA)

KenGen is committed to sustainable development through conducting ESIAs. The ESIA report for the proposed establishment of 60MW temporary emergency power project at Muhoroni was approved by NEMA on 5th September, 2011. Following recommendations by NEMA that the permanent 80 MW thermal power plant at Muhoroni be subjected to a full Environmental Impact Assessment (EIA) Study, noise and air quality modelling was undertaken by consultants, Mott MacDonald.

The full report is being compiled by KenGen and will be submitted to NEMA before end of April 2012.

i. The annual statutory environmental self audits were completed and forwarded to NEMA. Acknowledgments on the same were received.
ii. ESIA study reports for the proposed 80MW Muhoroni thermal power project were submitted to NEMA for approval. The disclosure process is in progress.
iii. ESIA study for the proposed geothermal drilling of 80 Wells to realize 560MW in Olkaria has been concluded and project reports submitted to NEMA on 8th June 2012. Approvals expected by end of June 2012.
iv. ESIA study for the proposed Olkaria Geothermal Complex and Workshops has been concluded and project reports submitted to NEMA on 21st June 2012. Approvals expected by mid July 2012, if due process is followed.
v. ESIA study for Olkaria Domes Quarry has also been initiated. The report to be finalized as soon as geological analysis results are obtained from Projects Execution Department.
vi. NEMA exemptions obtained for the proposed Wanjii rehabilitation
vii. NEMA approvals obtained for Asbestos Disposal in Gogo, Western Hydros.

Internal and External Audits

ERC Environmental Health and Safety Audits

i. NEMA Improvement Orders and Comments on the Initial and Annual Environmental Audits for Central Workshop and Stima Plaza have been addressed. These included gaps in solid waste segregation and inventories, and evidence of commitment for disposal of hazardous waste oil and sludge.
ii. The Corrective Action Plans (CAPs) for Sagana were revised to close on environmental management issues raised during ERC EHS audits.

Environment and Resettlement

Resettlement

Execution of large infrastructure projects has profound socio-economic and environmental impact. In keeping with its commitment to Project Affected Persons (PAPs) KenGen has constituted a Stakeholders Coordination Committee. The committee launched in March 2012 handles resettlement issues amongst other issues.

There are four sub-committees namely:

i. Resettlement Action Plan Implementation Committee (RAPIC),
ii. Employment Committee,
iii. Safety, Health and Environment Committee; and
iv. Economic Opportunities Committee.

As part of the Strategy to find an amicable solution to resettlement of the PAPs at the Olkaria IV Power Plant area, the Technical Committee was formed. The Committee has 32 members made of community leaders, area Members of Parliament, provincial administration and KenGen. The Committee will focus mainly on resettlement and compensation issues, employment and economic opportunities and environment.

Following the approval of the Community Benefits Plan (CBP) by the World Bank and advance payment of US$ 224,990 towards the community benefits, implementation of the community projects commenced during the year. under review. Necessary approvals have been granted by NEMA for the construction of water pans and water lines.

The construction of a water pan at Olosing'ate is complete, and the Maiela waterline is almost 90% complete. The Senior Environmental Specialist from the World Bank visited the community projects in March 2012 and was satisfied with the progress.

Strategic Environmental Assessment (SEA) Studies

The NEMA draft SEA guidelines have been obtained to assist in preparation for SEA process for geothermal developments in the grater Olkaria geothermal area as directed by the World Bank.

Olkaria IV RAP

i. The Final RAP report submitted to Financiers on 15th June 2012.
ii. The initial RAP progress report was compiled and submitted to JICA and KEEP Independent Evaluation Panel consultants.
iii. Stakeholders' engagement continued. Members of the Stakeholders Coordination Committee (SCC) and the RAP Implementation Committee (RAPIC), SHE, Land and Employment sub-committees met as planned.
iv. Transect walk at the RAP resettlement site was done on 25th and 26th June 2012. All RAPIC members (KenGen, provincial administration, PAP and Line Ministry representatives) participated. This was to enable members appreciate the site and make informed decisions on the proposed settlement patterns and layouts for other facilities.

9. Clean Development Mechanism(CDM)

KenGen is committed to investing in sustainable development of clean, renewable energy in tune with Kenya's vision of attaining a green energy economy by the year 2020.

This investment is our contribution in mitigating adverse global climate change and our onus to Kenyans as the dominant electric power provider.

KenGen actively participated as part of the Kenyan/Africa contingent to the Conference of Parties (COP) 17 in Durban, South Africa(December 2011) organised to deliberate on the future of CDM upon the expiry of the Kyoto Protocol. Owing to the absence of a carbon exchange in Africa, KenGen supports initiatives to establish carbon tradable instruments through the establishment of a CDM Centre.

KenGen is the pioneer company in CDM project development process in the country.The 35MW Olkaria II Geothermal Expansion Project was KenGen's first registered CDM project with expected annual carbon credits / Certified Emission Reductions (CERs) of 149,000tonnes of carbon dioxide emissions (tCO2e).

CDM projects that are in various stages of the pipeline include:

		Project	Expected Annual CERs	Expected Date of Registration
1	140 MW	Olkaria I Units 4&5	680,000 tCO2e	Dec 2012
2	140 MW	Olkaria IV	680,000 tCO2e	Dec 2012
3	20 MW	Re-development of the Tana Hydropower Project	29,000 tCO2e	Registered
4	24 MW	Optimization of Kiambere Hydropower Project	29,000 tCO2e	Dec 2012
5	5.1 MW	Ngong Wind Project	12,000 tCO2e	Dec 2012
6	35 MW	Olkaria II 3rd unit	150,000 tCO2e	Registered
		Total	1,580,000 tCO2e	

10% of the total carbon revenue of the 35MW Olkaria II 3rd unit. It is slated to improve the surrounding communities with projects in water, health and education.

KenGen in Second Kyoto Protocol Committment Period

In December 2011, a large contingent from Kenya attended the Climate Change Conference (COP 17) in Durban, and KenGen – a vivid "Green" champion – was aptly represented. The forum was vital in determining the future of the Kyoto Protocol as the 1st commitment period expires on December 31, 2012. A 2nd commitment period of the Kyoto Protocol was agreed upon by representatives of 35 industrialized countries with effect from January 1, 2013.

The countries pledged support for the Green Climate Fund – a vehicle to help developing countries boost clean energy establishment, adapt to climate change and help make available resources in technology and capacity developments while funding innovative and replicable approaches. Kenya aims to secure accreditation as national implementing entity under the Green Climate Fund by 2013 to increase efficiency and continued support for local projects. Such opportunities will be capitalized by identifying bankable Adaptation and Mitigation projects in different sectors, such as energy, in which KenGen is a key contributor and pioneer.

An Adaptation Committee was also established to improve coordination of global adaptation actions and strengthen the adaptive capacities of poor and vulnerable countries. National Adaptation Plans will allow developing countries like Kenya to assess and reduce their vulnerability to climate change and to receive better protection against loss and damage caused by extreme weather events related to climate change. Kenya is no longer in the list of least developed countries and will not access the European Union market for sale of CERs, however, it can sell Voluntary Emission Reduction (VERs) in the same market

KenGen Carbon Centre

The Company is setting up an advisory and entrepreneurial arm, visualized as a carbon trading hub to unlock the regional potential. The main objectives of the Carbon Centre will be to: develop KenGen's projects to realize carbon revenue; provide carbon project development and technical support to players (project developers, financiers, development agencies and other institutions) in the carbon market; train and disseminate information on climate change and carbon markets; and provide a focal platform for local and international carbon project developers and traders.

The Kenyan economy needs an immediate transition toward a low emission and climate resilient development. Besides the CDM, other carbon market mechanisms of relevance to Kenya that the Carbon Centre will explore and support include Nationally Appropriate Mitigation Actions (NAMAs), regular national communications for countries and national greenhouse gas inventories as well as processes for bilateral trading mechanisms. The layout, budget and business plan for the Carbon Centre have been drawn up though there is need to publicize the centre before launching and stakeholder engagement has began to create the right linkages and draw clientele base in the carbon markets.

10. Innovation and Continual Improvement

Corporations today have to contend with accelerating change. The working environment, technological advances, customer and employee demands, as well as the regulatory framework are constantly evolving. Innovation and continuous improvement is a key focus in KenGen. We embrace new technology while we innovate to ensure that we remain competitive in the delivery of new capacity. Some of our innovative initiatives that have been undertaken in the course of the year include:

Well Head Generation

Construction of a typical geothermal plant takes around 4 years from initial drilling to commissioning. A Wellhead generation unit is a small geothermal power plant that can be quickly installed to take advantage of production capacity from idle geothermal well(s) thus enabling the company to begin early generation as well as recoup investment. KenGen has successfully installed a portable unit of 5MW at the Olkaria fields. This innovation makes KenGen the pioneer company in the World to achieve such a breakthrough. Following the success of the pilot unit, KenGen will roll out additional 14 units of 65MW by 2014.

Eburru

Geoscientific surface studies to identify possible exploration drilling sites, in the Eburru Geothermal field started in 1986 and were completed at the end of 1987. Following a detailed review and collation of data collected, it was established that a geothermal reservoir which was commercially exploitable, existed at Eburru.

Eburru Wellhead Geothermal Power Plant.

The Eburru Power plant was installed and commissioned for three main objectives:

i. To generate power;
ii. To test the ability of KenGen to design and install a power project;
iii. To generate a knowledge base on how to make small power stations mobile and produce an effective KenGen developed Mobile Power station.

The Eburru Wellhead Geothermal Power plant was the first project supervised by KenGen Engineers without assistance of external consultants. The project team delivered the project in a period of 24 months from contract commencement to commissioning. Having developed basic infrastructure at Eburru, KenGen is now considering drilling other wells and installing additional wellhead units. It is noted that stakeholder relations were perfectly managed, resulting in mutual benefits to all parties.

Panoramic view of Eburru

SCADA

The Supervisory Control and Data Acquisition (SCADA) project-a computerised plant controlling and monitoring system- is complete on all non-thermal plants. New plants coming online are being installed with this system. Amongst many benefits, SCADA has enabled us run condition-based plant maintenance which reduces maintenance intervals.

We are also making significant progress in our Information, Communication Technology Strategy and we expect to leverage on ICT to improve operational efficiency. Further, we have upgraded our Enterprise Resource Planning software (SAP) to integrate all our operational functions.

This integration has enabled us track and monitor trends that affect our operations. With such business intelligence we are able to deliver value to our investors.

Innovation Incubator

KenGen facilitates idea-exchange forums and discussions to enable staff deliberate on diverse innovative concepts that identify avenues to improve business operations and savings. The Company launched the G2G Technical Seminar to provide a platform to moot innovative ideas generated by employees.

There was 100% representation by staff from all the business areas and functions. Concept papers were presented tackling diverse ideas aimed at raising the G2G strategy to higher levels. An action plan was developed thereafter to implement the winning ideas proposed at the seminar.

The deliberations at the gathering which will be held annually are envisaged to anchor creativity and innovation in our G2G Strategy, thus adding value to our transformation journey. Further, we created an online knowledge exchange forum to continuously harness new ideas. The ultimate goal is to improve our business processes thus realizing value addition and efficiency in our operations.

11. Integrated Risk Management

The Company ensures continuous independent review of the effectiveness of internal controls, risk management and governance processes. Value is added through recommendations for the improvement of these processes in line with best practice. Consultancy and special reviews are undertaken on various aspects of the Company's operations on a need basis.

Risk Register

During the year, the Company's risk management framework was rolled out throughout the organization. This has culminated in the set up of a strategic risk register; risk registers at all operational areas, project risk registers, and a disaster & emergency register.

The Company is creating a culture of risk awareness and of embedding of risk management in all its activities. This will facilitate continuous monitoring of existing and emerging risks and their mitigation on a timely basis, to ensure successful achievement of the Company's strategic objectives.

Risk Management

1.1 Environmental and Social Risks

(i) Environmental Risks

Compliance with current and future environmental regulations, particularly by the older plants, may require substantial capital expenditure and, in certain cases, may require the closing down of non-complying plants or result in increased projects and plant operating costs. The Company is certified for ISO 14001:2004 environmental management system and conducts annual environmental audits in line with legal and regulatory requirements.

(ii) Hydrology

Over 50% of power generated in Kenya is hydro based. In light of this, unfavourable hydrological conditions adversely affect the generating capacity of the company. The Company is diversifying to wind and all-weather generation sources such as geothermal, coal and LNG fired thermal plants to reduce the exposure to hydrological risks.

KenGen advocates the creation of a Hydro Risk Mitigation Fund to cater for risks such as prolonged droughts. This will cushion the consumer against the effects of adverse weather conditions. The new Energy Policy also highlights the need for hydro risk mitigation.

(iii) Site Acquisition and Utilization

As KenGen seeks to expand its footprint, any development activities must always take into consideration and accommodate the Project Affected Persons (PAPS).

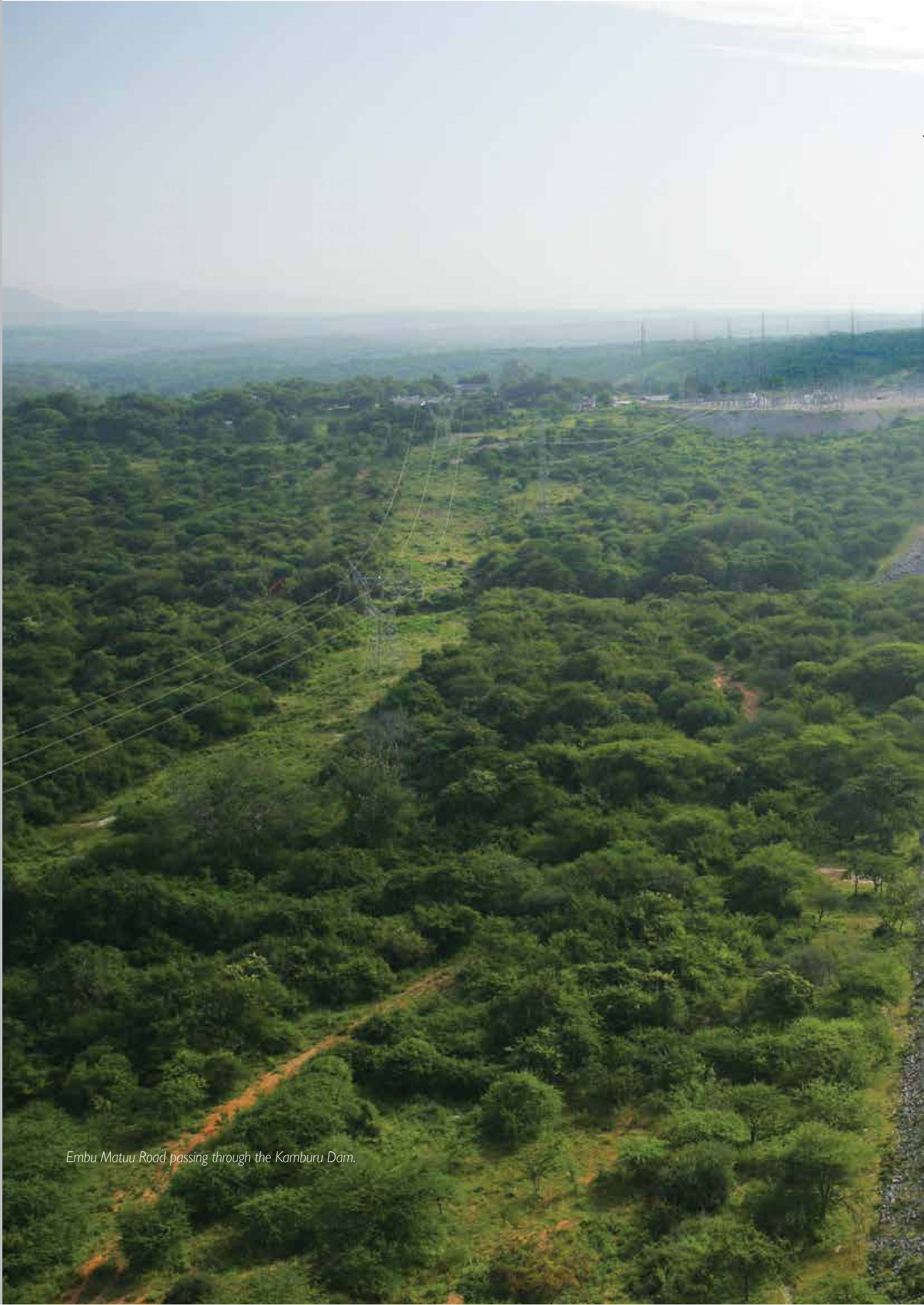
KenGen in all its programmes includes environmental and social impacts assessments which form the basis for successful negotiations with the PAPs for relocations and compensations for their land acquired for development/expansion projects. KenGen also through its Corporate Social Responsibility (CSR) programme supports the PAPs in various development activities.

1.2 Economic Risks

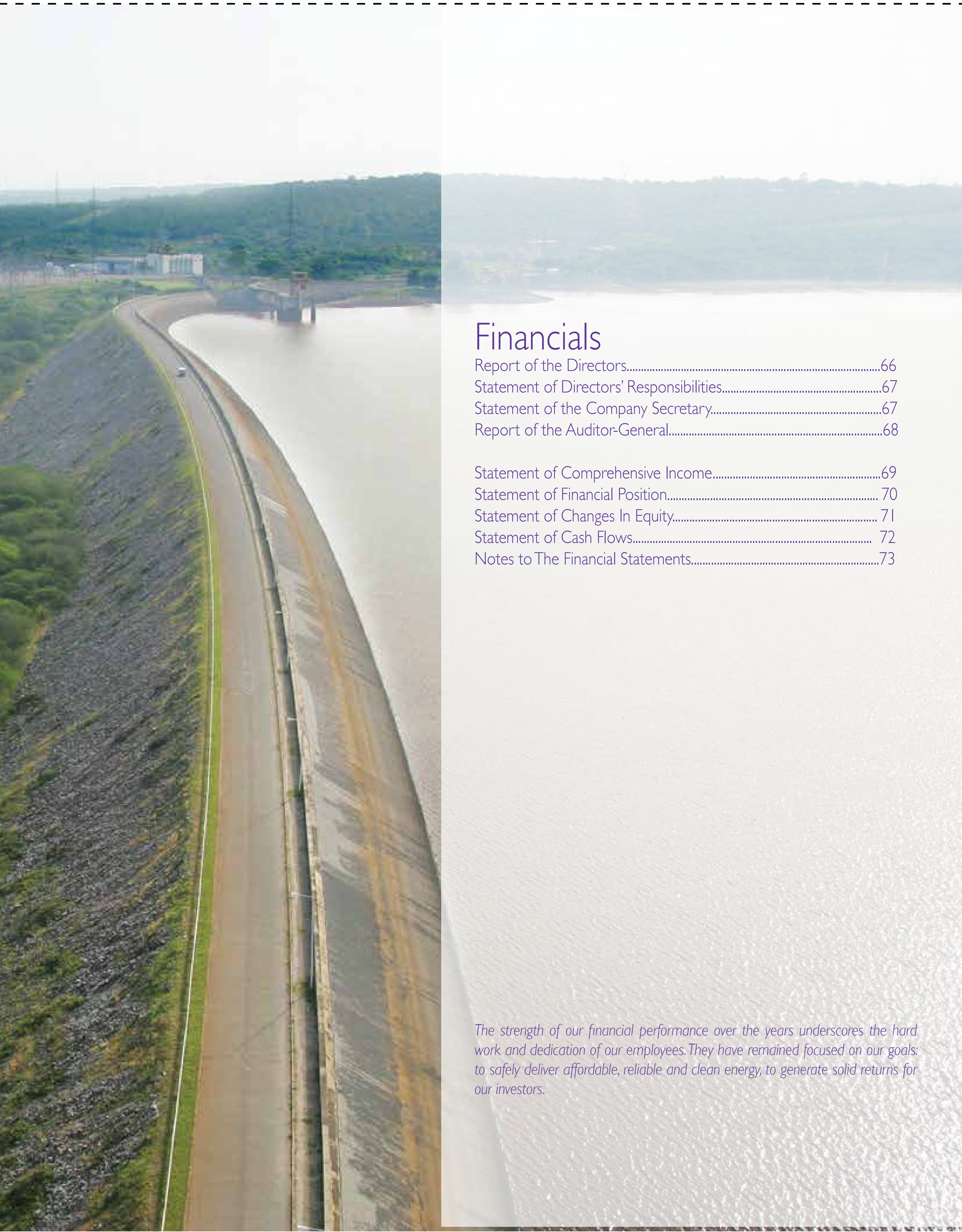
KenGen's Capacity expansion program may be adversely affected by changes in the macro-economic variables such as inflation, exchange rate and taxation. These risks are managed through our long term power purchase agreements.

1.3 Security Risks

We have heightened security in all our installations to guard against external and internal aggression.



Embu Matuu Road passing through the Kamburu Dam.



Financials

The strength of our financial performance over the years underscores the hard work and dedication of our employees. They have remained focused on our goals: to safely deliver affordable, reliable and clean energy, to generate solid returns for our investors.

Report of the Directors

The Directors are pleased to present their report and the audited financial statements for the year ended 30 June 2012 which show the state of affairs of the Company.

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).

Results

	2012 Shs'000	2011 Shs'000
Profit before tax	4,045,190	3,651,307
Taxation charge	(1,222,590)	(1,571,186)
Profit for the year transferred to revenue reserves	2,822,600	2,080,121

Dividends

Subject to the approval of the shareholders, the directors recommend the payment of a first and final dividend of Shs 1.319 billion (2011: Shs 1.099 billion) for the year representing Shs 0.60 (2011: Shs 0.50) per issued ordinary share.

Directors

The present members of the Board of Directors are shown on page 20-22.

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 2012.

By Order of the Board

Rebecca Miano - Company Secretary

Nairobi, Kenya

26 September 2012

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 its operating results 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 of financial statements that give a true and fair view 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 its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director	Director	Director

26 September 2012

Statement of the Company Secretary

In accordance with section 125 of the Companies Act, I certify that the company has lodged with the Registrar-General all such returns as are required of a public company in accordance with the Act and that all such returns are true, correct and up to date.

Rebecca Miano - Company Secretary

Nairobi

26 September 2012

Report of The Auditor-General on the Financial Statements

Report on the Financial Statements

The accompanying financial statements of Kenya Electricity Generating Company Limited set out at pages 66 to 109, which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and 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 and Touche 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

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

Management is also responsible for the submission of its financial statements to the Auditor –General in accordance with the provision of Section 13 of the Public Audit Act, 2003.

Responsibility of the Auditor- General

My responsibility is to express an independent opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. 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 to obtain 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control.

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

Unqualified Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2012 and of 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 and Regulatory Requirements

As required by the Kenyan Companies Act, I report based on the audit, that;
(i) I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit:
(ii) In my opinion, proper books of account have been kept by the Company so far as appears from the examination of those books: and
(iii) The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Edward R. O. Ouko
AUDITOR-GENERAL

Nairobi

26 September 2012

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Note	2012 Shs'000	2011 Shs'000
Revenue	4	15,999,078	14,389,027
Interest income	5	952,621	548,975
Other income	6(a)	484,632	284,094
		17,436,331	**15,222,096**
Other (losses) and gains	7	(152,811)	439,669
Operating costs	8	(10,266,022)	(10,013,507)
Finance costs	10	(2,972,308)	(1,996,951)
PROFIT BEFORE TAX	11	**4,045,190**	**3,651,307**
Taxation charge	12(a)	(1,222,590)	(1,571,186)
PROFIT FOR THE YEAR		**2,822,600**	**2,080,121**
OTHER COMPREHENSIVE LOSS			
Net losses on revaluation of available-for-sale treasury bonds	18(b)	(908,786)	(587,268)
Cumulative gain reclassified from equity on disposal of available-for-sale treasury bonds	18(c)	(53,666)	(46,230)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(962,452)**	**(633,498)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,860,148**	**1,446,623**
Earnings per share Basic and diluted (Shs)	13	1.28	0.94

Statement of Financial Position as at 30 June 2012

ASSETS	Note	2012 Shs'000	2011 Shs'000
Non-current assets			
Property, plant and equipment	14	120,664,699	116,786,429
Prepaid leases on land	15	35,426	1,373
Intangible assets	16	896,335	663,553
Amount due from Kenya Power-deferred debt	17(b)	1,401,133	1,472,503
Treasury bonds	18	8,050,919	9,610,661
Recoverable foreign exchange adjustment	19	9,808,295	12,919,737
Total non-current assets		**140,856,807**	**141,454,256**
Current assets			
Inventories	20	1,955,564	1,168,240
Amount due from Kenya Power	17(a)	7,221,777	7,786,396
Other receivables	21	6,077,151	1,593,845
Amount due from Ministry of Energy	22	5,318,021	4,574,417
Treasury bonds	18	643,203	391,127
Recoverable foreign exchange adjustment	19	405,477	523,554
Corporate tax recoverable	12(c)	231,154	385,857
Cash and cash equivalents	23(a)	435,719	3,115,598
Total current assets		**22,288,066**	**19,539,034**
TOTAL ASSETS		**163,144,873**	**160,993,290**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	24	5,495,904	5,495,904
Share premium	25(a)	5,039,818	5,039,818
Capital reserve	25(b)	8,579,722	8,579,722
Investments revaluation reserve	25(c)	(210,490)	751,962
Property, plant and equipment revaluation reserve	25(d)	17,954,954	19,038,008
Retained earnings		33,319,646	30,513,173
Total Equity		**70,179,554**	**69,418,587**
Non-current liabilities			
Borrowings	26(a)	61,850,220	64,166,527
Operating lease liability	27(b)	5,000	7,000
Retirement benefits liability	28	93,500	1,112,400
Deferred tax liability	29	16,015,642	15,032,183
Total non-current liabilities		**77,964,362**	**80,318,110**
Current liabilities			
Borrowings due within one year	26(a)	7,265,504	4,480,481
Trade and other payables	30	4,370,312	3,645,245
Amount due to Kenya Power	17(d)	6,405	13,659
Operating lease liability	27(b)	2,000	2,000
Leave pay provision	31	160,415	191,387
Dividends payable	32(a)	3,196,321	2,923,821
Total current liabilities		**15,000,957**	**11,256,593**
TOTAL LIABILITIES		**92,965,319**	**91,574,703**
TOTAL EQUITY AND LIABILITIES		**163,144,873**	**160,993,290**

The financial statements on pages 66 to 109 were approved and authorised for issue by the board of Directors on 26 September 2012 and were signed on its behalf by:

.... Director

.... Director

.... Director

Statement of Changes in Equity for the Year Ended 30 June 2012

	Share capital	Share premium	Capital reserve	Investments revaluation reserve	Property revaluation reserve	Retained earnings	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 July 2010	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 loss for the year	-	-	-	(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 - 2011	-	-	-	-	-	(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**
At 1 July 2011	5,495,904	5,039,818	8,579,722	751,962	19,038,008	30,513,173	69,418,587
Profit for the year	-	-	-	-	-	2,822,600	2,822,600
Other comprehensive loss for the year	-	-	-	(962,452)	-	-	(962,452)
Total comprehensive income for the year	-	-	-	(962,452)	-	2,822,600	1,860,148
Transfer of excess depreciation	-	-	-	-	(1,575,373)	1,575,373	-
Deferred tax on revaluation surplus – current year	-	-	-	-	472,612	(472,612)	-
Deferred tax on revaluation surplus – prior year	-	-	-	-	19,707	(19,707)	-
Dividend declared - 2011	-	-	-	-	-	(1,099,181)	(1,099,181)
At 30 June 2012	**5,495,904**	**5,039,818**	**8,579,722**	**(210,490)**	**17,954,954**	**33,319,646**	**70,179,554**

Statement of Cash Flows for the Year Ended 30 June 2012

		2012	2011
Cash flows from operating activities	Note	Shs '000	Shs"000
Cash generated from operations	33(a)	5,259,774	5,253,017
Income tax paid	12(c)	(84,428)	(102,989)
Interest received	33(b)	863,262	710,525
Interest paid	33(c)	(2,988,302)	(1,349,795)
Net cash generated by operating activities		**3,050,306**	**4,510,758**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(9,020,497)	(19,168,158)
Purchase of prepaid leasehold land	15	(4,736)	-
Purchase of intangible assets	16	(3,109)	(143)
Payments to acquire treasury bonds	18(b)	-	(4,544,707)
Proceeds on sale/redemption of treasury bonds	18(c)	393,299	1,317,050
Net cash used in investing activities		**(8,635,043)**	**(22,395,958)**
Cash Flows From Financing Activities			
Repayment of borrowings	26(d)	(3,139,897)	(1,571,189)
Proceeds from borrowings	26(d)	6,871,436	1,570,295
Dividends paid to owners of the company	32	(826,681)	(329,754)
Net cash generated from/(used in) financing activities		**2,904,858**	**(330,648)**
Net Decrease in cash and cash equivalents		**(2,679,879)**	**(18,215,848)**
Cash and cash equivalents at the beginning of the year		3,115,598	21,331,446
Cash and cash equivalents at the end of the year	23(a)	**435,719**	**3,115,598**

Notes to the Financial Statements for the Year Ended 30 June 2012

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 Securities 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.

Application of new and revised International Financial Reporting Standards (IFRSs)

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2012

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the company has chosen to continue presenting this analysis in the statement of comprehensive income therefore this has not resulted to any change in presentation.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The company is a government related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) gives the company exemption from disclosing its transactions with the government and related government entities. The company has opted to continue disclosing its transactions with the government and all other government entities it had transactions with during the year.
Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the company has not issued instruments of this nature.

2) Accounting policies (Continued)

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2012 (Continued)

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the company's financial statements.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the financial statements.

b) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2012

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
Amendment to interpretations	
IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2013

c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2012 and future annual periods

- IFRS 9, Financial Instruments

  IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of 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.

2) Accounting policies (Continued)
(c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2012 and future annual periods (Continued)

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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 will not have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities because currently, the company only has simple financial instruments whose measurements will not be affected by this standard.

- IFRS 13 Fair Value Measurements
  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; and
- Level 3 - unobservable inputs for the asset or liability.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will result in more extensive disclosures in the financial statements.

- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)
  These amend IAS 12, Income Taxes, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40, Investment Property, will normally be through sale. As a result of the amendments, SIC-21, Income Taxes — Recovery of Revalued Non-Depreciable Assets, would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

  The above amendments are generally effective for annual periods beginning on or after 1 January 2012. The company will apply this amendment prospectively. The directors anticipate no material impact to the company's financial statements currently as the company does not have investment properties. However, the company would have to apply this standard to any such arrangements entered into in the future.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
  These amend IAS 1, Presentation of Financial Statements, to revise the way other comprehensive income is presented.

  The amendments:
- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

2) Accounting policies (Continued)

(c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2012 and future annual periods (Continued)

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The company will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the company's financial statements.

- IAS 19 (as revised in 2011)- Employee Benefits

  The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

  The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the company's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

d) Early adoption of standards

The Company did not early adopt any new or amended standards

e) 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.

The principal accounting policies are set out below.

f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. 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's return on investments so it can 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.

g) 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.

2) Accounting policies (Continued)
g) Taxation (Continued)

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.

(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.

h) Property, plant and 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 machinery 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 company's 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)

h) Property, plant and 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.

i) 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.

j) 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.

k) 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.

l) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business, including direct material costs. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the costs of realisation. Obsolete and defective inventories are fully written off.

m) 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.

2) Accounting policies (Continued)

n) 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 amortised 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.

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.

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.

2) Accounting policies (Continued)

n) Financial Assets (Continued)

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.

0) 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.

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.

p) Employees' benefits

i) Retirement benefits obligations

The company operates a defined benefits scheme and a defined contributions scheme. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the company's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2) Accounting policies (Continued)
p) Employees' benefits (Continued)

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.

q) 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.

r) 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.

s) Grants
Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the company recognises as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company with no future related costs are recognised in profit or loss in the period in which they become receivable.

t) 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.

u) 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 the company's 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 Sh 2,441 million (30 June 2011: Sh 2,449). Details of these assets are set out in note 18.

3) Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

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.

The useful lives of the plants are then used in establishing the contracts that the company enters into under the Power Purchase Agreements. During the financial year, the Power Purchasing Agreement for Olkaria I expired. Consequently, the plant, because of its age has been put under an energy based Power Purchasing Agreement for a further period of four years. Investments will be done to ensure availability and operation of the plant for the next four years.

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.

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.

		2012 Shs'000	2011 Shs'000
4.	Revenue		
	Electricity sales:-		
	- Capacity charges revenue	13,206,161	12,217,021
	- Energy revenue	1,567,360	1,211,653
	Power Purchase Agreements' adjustments:		
	- Foreign currency adjustment payments – loans (note 7(b))	176,363	195,188
	- Foreign currency adjustment payments - others	922,227	702,219
		15,872,111	**14,326,081**
	Revenue from Emergency Power Project (EPP)	126,967	62,946
		15,999,078	**14,389,027**
5.	Interest income		
	Treasury bonds	625,841	507,762
	Other receivables	6,196	1,768
	Banks and other financial institutions	233,368	37,703
	Kenya Power	87,216	1,742
		952,621	**548,975**
	The following is an analysis of interest income earned on financial assets by category of asset		
	Available-for-sale treasury bonds	389,591	288,341
	Held-to-maturity treasury bonds	236,250	219,421
	Receivables (including cash and bank balances)	326,780	41,213
		952,621	**548,975**

		2012 Shs'000	2011 Shs'000
6.	**Other income**		
(a)	Consultancy services	14,699	51,435
	Miscellaneous income	110,085	43,256
	Net fuel pass-through (Note 6(b))	359,848	189,403
	Net water charges pass through (Note 6(c))	-	-
		484,632	**284,094**
(b)	Net fuel pass-through[1]		
	Fuel pass-through revenue	12,592,346	6,148,072
	Fuel pass-through costs	(12,232,498)	(5,958,669)
		359,848	**189,403**
(c)	Net water charges pass-through[2]		
	Water charges pass-through revenue	91,470	-
	Water charges pass-through costs	(91,470)	-
		-	**-**

[1]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. Because the machines are presently new, the positive pass-through is expected to reverse in future. [2]The Water Resource Management Rules 2007 (Water Regulations) was Gazetted by the Government through legal notice No. 171 of September 2007. The regulation provided for water use charge at the rate of 0.05 Shs/kWh for power plants with capacity of over 1MW. With approval from the Energy Regulation Commission, the company is reimbursed by Kenya Power for the cost of water charges as pass-through.

		2012 Shs'000	2011 Shs'000
7	**Other Gains and Losses**		
(a)	Foreign exchange (losses)/gains on other monetary items excluding borrowings	(208,650)	478,673
	Cumulative gain reclassified from equity on disposal of available-for-sale investments	53,666	46,230
	Gain/(loss) on disposal of available-for-sale investments	2,173	(22,142)
	Loss on impairment of property, plant and equipment	-	(63,092)
	Unrealized foreign exchange gains/(losses) on revaluation of borrowings[1]	2,724,912	(6,802,871)
	Recoverable foreign exchange differences (note 7(b))	(2,724,912)	6,802,871
		(152,811)	**439,669**

(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 or losses are credited or debited to the consumer through Kenya Power.

[1]Borrowings in currencies other than Kenya Shillings are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, the borrowings are retranslated at the rates prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise and are disclosed under note 7(a) above. Foreign exchange rates prevalent on the dates of loan repayments relative to the Base Exchange rates agreed at the time of signing the PPA are recognised in the profit or loss upon repayment of the relating loan. These are disclosed in note 4 as "Foreign currency adjustment payments – loans".

		2012 Shs'000	2011 Shs'000
8.	Operating Costs		
	Staff costs (note 9)	2,169,802	2,890,984
	Depreciation (note 14)	4,848,372	4,549,421
	Plant operation and maintenance	1,570,693	919,863
	Welfare and training	335,876	464,729
	Amortization - Prepaid leases on leasehold land (note 15)	42	44
	- Intangible assets- software (note 16)	34,823	31,874
	Insurance	404,242	278,901
	Catchment preservation and dam maintenance	107,000	107,000
	Transport and travelling costs	308,242	275,180
	Consultants fees	54,204	111,701
	Office expenses	107,315	115,925
	Provision for doubtful debt	170,941	49,522
	Other costs	154,470	218,363
		10,266,022	**10,013,507**
9.	Staff Costs		
	Salaries and wages	2,770,045	2,868,708
	Leave pay allowance	27,447	72,865
	Pension gain - defined benefit scheme	(744,500)	(56,400)
	Pension cost - defined contribution scheme	110,055	-
	National Social Security Fund	6,755	5,811
		2,169,802	**2,890,984**

		2012 Numbers	2011 Numbers
	The number of persons employed by the company at the year end was		
	- Operational staff	1,377	1,372
	- Geothermal resource assessment	452	291
		1,829	**1,663**

		2012 Shs'000	2011 Shs'000
10.	Finance costs		
	Interest on borrowings	4,278,140	4,394,494
	Interest on bank overdrafts	-	1,959
	Total interest expense	**4,278,140**	**4,396,453**
	Less: capitalised interest	(1,305,832)	(2,399,502)
		2,972,308	**1,996,951**
11.	Profit Before Tax		
	Profit before tax is arrived at after charging:		
	Depreciation on property, plant and equipment	4,848,372	4,549,421
	Amortisation of intangible assets	34,823	31,874
	Amortisation of prepaid lease	42	44
	Impairment losses	-	63,092
	Directors' emoluments: fees - executive	-	-
	-fees – non-executive	6,000	6,000
	: other emoluments executive	20,045	13,200
	: other emoluments non-executive	**28,732**	**17,545**
	Auditor's remuneration	4,920	4,344
	Operating lease rentals	67,518	79,270
	Provision for doubtful debt	170,941	49,522
	Interest on borrowings	2,972,308	1,996,951
	And after crediting:		
	Interest income	(952,621)	(548,975)

		2012 Shs'000	2011 Shs'000
12.	Taxation		
(a)	Taxation charge		
	Current taxation based on the adjusted profit at 30%	-	-
	Interest taxed as a separate source of income	121,786	-
	Compensating tax	57,397	-
	Deferred tax charge (note 29)	1,055,032	1,571,186
	Prior year under provision – interest taxed as a separate source of income	59,948	-
	Prior year over provision – deferred tax	(71,573)	-
		1,222,590	**1,571,186**
(b)	Reconciliation of expected tax based on accounting profit to taxation charge		
	Profit before taxation	**4,045,190**	**3,651,307**
	Tax applicable rate of 30%	1,213,557	1,095,392
	Tax effect of income not subject to tax	(90,980)	(7,283)
	Tax effect of capital allowances exceeding 100% of cost	(130,573)	(509,218)
	Compensating tax	57,397	-
	Tax effect of expenses not deductible for tax purposes	184,814	51,763
	Effect on deferred tax balances due to the change in tax rate from 25% to 30%	-	940,532
	Prior year under provision – interest taxed as a separate source of income	59,948	-
	Prior year over provision – deferred tax	(71,573)	-
	Total taxation charge	**1,222,590**	**1,571,186**
(c)	Corporate tax movement		
	Balance brought forward	(385,857)	(282,868)
	Interest taxed as a separate source of income	121,786	-
	Compensating tax	57,397	-
	Prior year under provision – interest taxed as a separate source of income	59,948	-
	Paid during the year	(84,428)	(102,989)
		(231,154)	**(385,857)**

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:

	2012	2011
Profit attributable to ordinary shareholders for basic earnings (in Shs'000)	2,822,600	2,080,121
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)	**1.28**	**0.94**

14. Property, Plant and Equipment

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and 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	-	-	-	-	-	19,168,158	19,168,158
Transfers from WIP	3,016,257	21,686	10,195,339	168,554	258,598	(13,660,434)	-
Reclassification	(524,700)	(3,331)	354,010	-	174,021	-	-
At 30 June 2011	**20,790,792**	**99,416**	**104,453,779**	**764,229**	**2,649,603**	**20,913,583**	**149,671,402**
At 1 July 2011	20,790,792	99,416	104,453,779	764,229	2,649,603	20,913,583	149,671,402
Additions	-	-	-	-	-	9,020,497	9,020,497
Transfers from WIP	338,594	-	2,018,303	-	26,903	(2,383,800)	-
Transfer to intangible assets	-	-	-	-	-	(264,496)	(264,496)
Reclassification (Note 15)	(16,564)	-	-	-	-	(16,738)	(33,302)
At 30 June 2012	**21,112,822**	**99,416**	**106,472,082**	**764,229**	**2,676,506**	**27,269,046**	**158,394,101**
Depreciation							
At 1 July 2010	4,336,618	8,357	21,988,827	346,029	1,592,629	-	28,272,460
Charge for year	497,056	3,562	3,739,144	140,098	169,561	-	4,549,421
Impairment losses	-	-	63,092	-	-	-	63,092
At 30 June 2011	**4,833,674**	**11,919**	**25,791,063**	**486,127**	**1,762,190**	**-**	**32,884,973**
At 1 July 2011	4,833,674	11,919	25,791,063	486,127	1,762,190	-	32,884,973
Charge for year	561,460	3,790	4,049,906	83,141	150,075	-	4,848,372
Reclassification (Note 15)	(3,943)	-	-	-	-	-	(3,943)
At 30 June 2012	**5,391,191**	**15,709**	**29,840,969**	**569,268**	**1,912,265**	**-**	**37,729,402**
Net Book Value							
At 30 June 2012	**15,721,631**	**83,707**	**76,631,113**	**194,961**	**764,241**	**27,269,046**	**120,664,699**
At 30 June 2011	**15,957,118**	**87,497**	**78,662,716**	**278,102**	**887,413**	**20,913,583**	**116,786,429**

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.

14. Property, Plant and Equipment (Continued)

If the property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2012 Shs'000	2011 Shs'000
Cost	123,234,227	114,511,528
Accumulated depreciation	(28,219,462)	(24,950,406)
Net book value	**95,014,765**	**89,561,122**

The company land is located in the following locations:

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

	2012 Shs'000	2011 Shs'000
15. Prepaid leases on leasehold land		
Cost		
At start of the year	1,768	1,768
Additions	4,736	-
Reclassification (Note 14)	33,302	-
At close of the year	**39,806**	**1,768**
Prepaid Lease Expenses		
At start of the year	395	351
Prepaid lease expense for the year	42	44
Reclassification (Note 14)	3,943	-
At close of the year	**4,380**	**395**
NET BOOK VALUE At close of the year	**35,426**	**1,373**
16. Intangible Assets		
Cost		
At start of the year	695,427	695,284
Additions	3,109	143
Transfer from work-in-progress	264,496	-
At close of the year	**963,032**	**695,427**
Amortization		
At start of the year	(31,874)	-
Charge for the year	(34,823)	(31,874)
	(66,697)	**(31,874)**
At close of the year	**896,335**	**663,553**

Intangible asset relates to costs incurred towards the installation of software. 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's main related parties are the Government of Kenya - Ministry of Energy, Kenya Power and Lighting Company Limited (Kenya Power) and Geothermal Development Company Limited (GDC).

Kenya Power is the authorised electricity distributor in Kenya with its majority shareholder being the Government of Kenya. Geothermal Development Company Limited is wholly owned by the Government of Kenya and its principal activities are the development of geothermal resources in Kenya through surface exploration and drilling for steam and to avail steam power to developers for electricity generation.

		2012 Shs'000	2011 Shs'000
(a)	Amount due from Kenya Power	7,221,777	7,786,396
(b)	Amount due from Kenya Power-deferred debt	1,401,133	1,472,503

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 in Japanese Yen on the deferred debt during the year was 0.74% (2011: 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 1,401,133,000 (2011: Shs 1,472,503,000) 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 in Japanese Yen at 0.75% per annum.

The deferred debt and corresponding loan from Japan Bank for International Corporation are both denominated in Japanese Yen (JPY). The amount outstanding as at year end was JPY 1,320,013,268 (2011: JPY 1,320,013,268). The Power purchase Agreements ("PPA") with Kenya Power and Lighting Company (Kenya Power), allows the company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA.

	2012 Shs'000	2011 Shs'000
(c) Amount due from Ministry of Finance (note 21)	528,096	76,855

The amounts due from Ministry of Finance relate to funds disbursed by the World Bank to the Ministry of Finance for onward transmission to the Company under The Kenya Electricity Expansion Project IDA Credit No 4743-KE.

	2012 Shs'000	2011 Shs'000
(d) Amount due to Kenya Power	6,405	13,659

(e) 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:

17) (e) Related Party Transactions (Continued)

		2012 Shs'000	2011 Shs'000
(i)	Electricity sales to Kenya Power	14,773,521	13,428,674
	Foreign exchange recovery	1,098,590	897,407
	Interest income on amounts due from Kenya Power	87,216	1,742
	Fuel pass-through	12,592,346	6,148,072
	Water charges pass-through	91,470	-
		28,643,143	**20,475,895**
(ii)	Electricity purchases from Kenya Power	118,915	133,152
	Provision for doubtful debtors	170,941	-
		289,856	**133,152**

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.

		2012 Shs'000	2011 Shs'000
(iii)	Government of Kenya (Ministry of Energy):		
	Funds received for Geothermal Resource assessment	(504,634)	-
	Geothermal Resource Assessment advance to Sinopec	128,635	525,761
	Receipts from Ministry of Energy/Geothermal Development Company	(3,000,000)	-
	Geothermal Development Company advance (Materials & services)	4,119,603	2,732,272

Other details relating to balances with the Government of Kenya (Ministry of Energy) are disclosed in notes 22, 26 and 34.

		2012 Shs'000	2011 Shs'000
(iv)	Staff advances	89,895	108,674

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

	2012 Shs'000	2011 Shs'000
Fees for services as a director		
Executive Directors	-	-
Non-Executive Directors	6,000	6,000
	6,000	**6,000**
Other emoluments		
Salaries and other short-term employment benefits:		
Executive Directors and key management	104,028	95,540
Non-Executive Directors	28,732	17,545
Total other emoluments	**132,760**	**113,085**
Total	**138,760**	**119,085**

18. Treasury Bonds

	2012 Shs'000	2011 Shs'000
(a) Analysis of treasury bonds		
Available-for-sale treasury bonds carried at fair value	6,252,888	7,552,800
Held-to-maturity treasury bonds carried at amortised cost	2,441,234	2,448,988
	8,694,122	**10,001,788**
Maturity analysis of treasury bonds		
- Within one year	643,203	391,127
- After one year but within two years	-	493,964
- After two years but within five years	-	140,626
- After five years	8,050,919	8,976,071
	8,694,122	**10,001,788**
Less current portion	(643,203)	(391,127)
Non-current	**8,050,919**	**9,610,661**
Weighted average interest rate	**10%**	**9.31%**

	Available-for-sale Shs'000	Held-to-maturity Shs'000	Total
(b) Movement in treasury bonds			
30 June 2012			
At 1 July 2011	7,552,800	2,448,988	10,001,788
Disposals	(391,126)	-	(391,126)
Fair value losses	(908,786)	-	(908,786)
Amortisation	-	(7,754)	(7,754)
At 30 June 2012	**6,252,888**	**2,441,234**	**8,694,122**
30 June 2011			
At 1 July 2010	7,383,541	-	7,383,541
Additions	2,095,719	2,448,988	4,544,707
Disposals	(1,339,192)	-	(1,339,192)
Fair value losses	(587,268)	-	(587,268)
At 30 June 2011	**7,552,800**	**2,448,988**	**10,001,788**

(c) Gains/(losses) on disposal of available-for-sale treasury bonds

	Cost Shs'000	Proceeds Shs'000	Gain on disposal Shs'000
30 June 2012			
Available-for-sale treasury bonds	337,460	393,299	55,839
Comprising:			
Cummulative gain reclassified from equity on disposal			53,666
Gain during the year			2,173
			55,839

18) Treasury Bonds (Continued)
(c) Gains/(losses) on disposal of available-for-sale treasury bonds (Continued)

30 June 2011

	Cost	Proceeds	Gain on disposal
	Shs'000	Shs'000	Shs'000
Available-for-sale treasury bonds	**1,292,962**	**1,317,050**	**24,088**

Comprising:	
Cummulative gain reclassified from equity on disposal	46,230
Loss during the year	(22,142)
	24,088

At 30 June 2012 no impairment losses have been recognised for treasury bonds (2011: 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 8.694 billion (2011 Shs 10.001 billion), Shs 643 million (2011 Shs 634 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 Kenya Power when realised. The Power purchase Agreement ("PPA") with Kenya Power and Lighting Company (Kenya Power), allows the company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA. The amount in the statement of financial position relates to unrealised exchange differences arising on retranslation of borrowings at the reporting date which are recoverable from Kenya Power.

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

	2012	2011
	Shs'000	Shs'000
At beginning of the year	13,443,291	6,955,455
Unrealised exchange (gains)/losses in the year (note 26(d)	(2,724,912)	6,802,871
Realised exchange losses on loan repayment (note 26(d)	(504,607)	(315,035)
At the end of the year	**10,213,772**	**13,443,291**
Less current portion	(405,477)	(523,554)
Non-current	**9,808,295**	**12,919,737**

20. Inventories

Fuel	1,377,060	596,314
General stores	95,012	67,294
Machinery spares	483,492	425,990
Goods-in-transit	-	78,642
	1,955,564	**1,168,240**

21. Other Receivables

Receivable from staff	35,491	25,508
Payments made on behalf of third parties*	220,917	391,487
Other receivables and prepayments	992,684	716,821
Advance payments**	4,150,011	383,174
Amounts due from the Ministry of Finance (note 17(c))	528,096	76,855
VAT recoverable	149,952	-
	6,077,151	**1,593,845**

21) Other Receivables (continued)

* 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 amounts paid to contractors and suppliers involved in the Olkaria I and Olkaria IV geothermal projects.

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

		2012	2011
		Shs'000	Shs'000
22.	**Amount due from Ministry of Energy**		
(a)	Geothermal resource assessment funds		
	As at July 1	1,842,145	1,316,384
	Received during the year	(504,634)	-
	Advances during the year	128,635	525,761
	As at 30 June	**1,466,146**	**1,842,145**
(b)	Geothermal Development Company		
	As at July 1	2,732,272	-
	Interest receivable	451,031	105,307
	Advances during the year	3,668,572	2,626,965
	Refund received	(3,000,000)	-
	As at 30 June	**3,851,875**	**2,732,272**
	Total Due	**5,318,021**	**4,574,417**

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.

		2012	2011
		Shs'000	Shs'000
23. Cash and Cash Equivalents			
a)	Analysis of bank and cash balances		
	Cash at bank and on hand	434,896	1,894,001
	Short term bank deposits – Held to maturity	823	1,221,597
		435,719	**3,115,598**

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.

23) Cash and Cash Equivalents (continued)

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

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

	2012 Shs'000	2011 Shs'000
Term deposits – at amortised cost	823	1,000,000
Call deposits - at amortised cost	-	221,597
	823	**1,221,597**

The weighted average interest rates earned on the short-term bank deposits during the year was 10% (2011: 4.59%).

Term deposit of nil (2011: Shs 15,834,000) 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

	2012 Shs'000	2011 Shs'000
Authorised: 2,215,927,528 ordinary shares of Shs 2.50 each	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

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	2012 Shs'000	2011 Shs'000
Government of Kenya Guaranteed			
2.6% Japan Bank for International Cooperation KE P20 2005/2025 (JPY 5,529,108,000)	2025	5,868,894	6,642,285
2.3% Japan Bank for International Cooperation KE P21 2007/2027 (JPY 5,072,910,000)	2027	5,384,661	6,036,200
0.75% Japan Bank for International Cooperation KE P23 2014/2044 (JPY 10,554,000,000)	2044	11,202,585	11,773,209
0.75% Japan International Cooperation Agency KE P24 (approved JPY 5,620,000,000), (Disbursed JPY 4,033,432,047)	2047	4,281,303	3,238,222
0.20% Japan International Cooperation Agency KE P26 (approved JPY 29,516,000,000), (Disbursed JPY1,730,129,822)	2040	1,836,453	-
2.5% Kreditanstalt Fur Wiederaufbau-Kindaruma (approved EUR 39,100,000), (Disbursed Euro 19,642,349)	2024	2,081,305	-
On lent			
7.7% International Development Association Credit 2003/2018 IDA 2966KE (USD 43,782,968.26)	2018	3,687,984	4,590,260
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019 (Euro 689,262,.01)	2019	73,034	103,556
4.5% International Development Association Credit IDA 3958KE, 2011/2027 (USD 25,023,388.20)	2025	2,107,803	2,436,091
1.5% KBC Bank loan (Belgium) Ngong I Wind Power (Euro 9,754,035.97)	2024	1,033,539	1,371,679
3.5% International Development Association IDA 4743 KE Credit (USD 6,787,532)	2035	571,736	77,508
Direct borrowings			
Agence Francaise de Development (AFD)(EURO 20,000,000)	2024	2,119,202	2,604,200
European Investment Bank (USD 42,612,249.76)	2025	3,589,370	4,122,124
12.5% Public Infrastructure Bond (Shs. 25,000,000,000)	2019	23,283,089	24,816,178
Citibank NA short-term loan	2012	1,192,574	-
		68,313,532	**67,811,512**
Accrued interest and other short term borrowings		802,192	835,496
Total borrowings		**69,115,724**	**68,647,008**
Less: Amounts due within 12 months		(7,265,504)	(4,480,481)
Non-current borrowings		**61,850,220**	**64,166,527**

26) Borrowings (continued)

(b) Borrowings maturity analysis:

	2012 Shs'000	2011 Shs'000
Due within 1 year	7,265,504	4,480,481
Due between 1 and 2 years	2,048,643	1,687,740
Due between 2 and 5 years	10,934,955	5,063,221
Due after 5 years	48,866,622	57,415,566
	69,115,724	**68,647,008**

(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 2012	**9,956,893**	**28,573,896**	**5,307,080**	**25,277,855**	**69,115,724**
Loans 30 June 2011	**11,378,794**	**27,817,857**	**4,103,356**	**25,347,001**	**68,647,008**

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:

	2012 Shs'000	2011 Shs'000
At beginning of the year	67,811,512	61,324,570
Received in the year	6,871,436	1,570,295
Repaid in the year	(3,139,897)	(1,571,189)
Realised exchange losses on repayment(note 19)	(504,607)	(315,035)
Unrealised exchange losses in the year(note 19)	(2,724,912)	6,802,871
At the end of the year	**68,313,532**	**67,811,512**
Add accrued interest (note 33(c))	802,192	835,496
Total borrowings at the end of the year	**69,115,724**	**68,647,008**

26) Borrowings (continued)

(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 2,107,802,565 (US$ 25,023,388.20) (2011: 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:

	2012 Shs'000	2011 Shs'000
Balance at the beginning of the year	66,662	36,093
Amounts received during the year	-	83,418
Interest income	-	(7,231)
Expenditure during the year	(13,473)	(45,618)
Balance at the end of the year	**53,189**	**66,662**

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 2011 to support implementation of the Kenya Energy Expansion Project (KEEP). Summary information on transactions during the year is as follows:

	2012 Shs'000	2011 Shs'000
Balance at the beginning of the year	77,508	-
Amounts received during the year	494,229	77,508
Balance at the end of the year	**571,736**	**77,508**

The closing balance shown above is included in loan balances and represents the balances outstanding on the World Bank funded designated Account No. 0810296571876 held at the Equity Bank Ltd. The disbursements to the Special Account have not been expended as at 30 June 2012. As at 30 June 2012 Ksh 571,736,000 - US$ 6,787,532 (2011: Kshs 77,507,614 -US$ 862,500) had been disbursed under this credit line as disclosed in note 26(a).

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

	2012 Shs'000	2011 Shs'000
Direct payments from letter of credit	**1,754,384**	**249,629**

27. Operating Lease Commitments

(a) As Lessee

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

	2012 Shs'000	2011 Shs'000
Within 1 year	32,703	15,089
After 1 year but not later than 5 years	52,465	36,421
	85,168	**51,510**

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:

	2012 Shs'000	2011 Shs'000
At beginning of year	9,000	11,000
Charge to profit or loss	(2,000)	(2,000)
At end of the year	**7,000**	**9,000**
Less current portion	(2,000)	(2,000)
Non-current portion	**5,000**	**7,000**
Maturity analysis of operating lease commitments as lessor:		
Within 1 year	2,000	2,000
After 1 year but not later than 5 years	5,000	7,000
After 5 years		-
	7,000	**9,000**

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.

The KenGen Staff Retirement Benefits Scheme (DB Scheme) is established under trust and was closed to new entrants and to future accrual of benefits with effect from 31 December 2011 in respect of members aged below 45 years. A new Defined Contribution Scheme, the KenGen Defined Contribution (DC Scheme) 2012 was established effective 1 January 2012, for all new eligible employees. All active in service members aged 45 years and over as at 31 December 2011 had an option to either remain in the DB scheme for future benefit accrual or join the new DC scheme. Some members have opted to join the new DC scheme for future benefit accrual while others opted to remain in the DB scheme. The company therefore only makes contributions to the DB scheme in respect of those members who opted to remain in the DB scheme. In addition, the company makes such additional contributions required to amortise the deficit under the DB scheme. DB scheme member contributions are a fixed percentage of pay with the company responsible for the balance.

A valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2011 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 2012. 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	2012 %	2011 %
Discount rate(s)	12.5%	13%
Expected return on scheme assets[1]	TBD	10%
Expected rate(s) of salary increase	8%	11%
Future pension increases[2]	0%	0%

28) Retirement Benefits Liability (continued)

[1]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.
[2]Increases of 3% per annum apply on pensions secured on pre 31 December 1999 (Kenya Power) service.

	2012 Shs'000	2011 Shs'000
Current service cost	23,600	125,600
Interest on obligation	622,600	539,000
Expected return on plan assets	(475,100)	(421,300)
Net actuarial gains recognized in the year	(19,400)	-
Past service cost	(869,000)	(299,700)
Gains on curtailments and settlements	(27,200)	-
Adjustments for restrictions on the defined benefit asset	**(744,500)**	**(56,400)**

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:

	2012 Shs'000	2011 Shs'000
Present value of funded defined benefit obligation	5,393,300	4,832,100
Fair value of plan assets	(5,107,200)	(4,668,600)
	286,100	**163,500**
Present value of unfunded defined benefit obligation	-	-
Net underfunding	**286,100**	**163,500**
Net actuarial (losses)/gains not recognized	(192,600)	948,900
Net liability arising from defined benefit obligation	**93,500**	**1,112,400**

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.

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

	2012 Shs'000	2011 Shs'000
Opening defined benefit obligation	4,832,100	5,367,500
Current service cost	23,600	125,600
Interest cost	622,600	539,000
Contributions from plan participants	82,000	50,100
Actuarial losses/(gains)	814,400	(819,700)
Past service cost	(869,000)	(299,700)
Benefits paid	(112,400)	(130,700)
Closing defined benefit obligation	**5,393,300**	**4,832,100**

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

Opening fair value of plan assets	4,668,600	4,127,800
Expected return on plan assets	475,100	421,300
Actuarial losses	(280,500)	(50,200)
Contributions from the employer	274,400	250,300
Contributions from plan participants including AVCs	82,000	50,100
Benefits paid	(112,400)	(130,700)
Closing fair value of plan assets	**5,107,200**	**4,668,600**

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		Fair value of plan assets	
	2012	2011	2012	2011
	%	%	Shs'000	Shs'000
Equity instruments	n/a	n/a	739,929	1,073,600
Debt instruments	n/a	n/a	1,992,494	1,521,000
Property	n/a	n/a	2,167,153	1,775,200
Offshore Investments	n/a	n/a	199,018	242,100
Cash	n/a	n/a	8,606	56,700
Weighted average expected return	**n/a**	**n/a**	**5,107,200**	**4,668,600**

	2012	2011
	Shs'000	Shs'000
The actual return on plan assets in the year was	**194,600**	**371,100**
The plan assets include ordinary shares of		
KenGen with a fair value of	**27,281**	**33,046**
Present value of defined benefit obligation	5,393,300	4,832,100
Fair value of plan assets	(5,107,200)	(4,668,600)
Deficit	**286,100**	**163,500**

29. Deferred Tax Liability

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

	2012	2011
	Shs'000	Shs'000
Deferred tax assets:		
Tax losses	(4,830,933)	(6,417,053)
Provisions for cost of living adjustment	(39,600)	-
Provisions for bad debt	(67,537)	(23,393)
Leave pay provision	(48,125)	(57,416)
Provision for bonus	(11,970)	(13,750)
Provision for gratuity	(4,157)	-
Defined benefit obligation	(28,050)	(333,720)
Unrealised exchange losses	(62,938)	-
	(5,093,310)	**(6,845,332)**
Deferred tax liabilities:		
Unrealised exchange gains	-	58,104
Revaluation surplus	7,694,980	8,285,745
Accelerated capital allowances	13,413,972	13,533,666
	21,108,952	**21,877,515**
Net deferred tax liability	**16,015,642**	**15,032,183**

29) Deferred tax liability (continued)

	2012 Shs'000	2011 Shs'000
Movement on the deferred tax account is as follows:		
At the beginning of the year	15,032,183	12,001,274
Deferred tax charge (note 12(a))	1,055,032	1,571,186
Effect of change in tax rate from 25% to 30% on deferred tax on revaluation surplus	-	1,459,723
Prior year overprovision	(71,573)	-
At the end of the year	**16,015,642**	**15,032,183**

30. Trade and Other Payables

	2012 Shs'000	2011 Shs'000
Trade payables	3,635,589	2,611,977
Contract payables and retention money	200,375	184,251
Sundry payables	534,348	659,654
VAT payable	-	189,363
	4,370,312	**3,645,245**

31. Leave Pay Provision

	2012 Shs'000	2011 Shs'000
At beginning of the year	191,387	182,049
(Credit)/charge to profit or loss	(30,972)	9,338
At close of the year	**160,415**	**191,387**

32. Dividends

a) Dividend payable

	2012 Shs'000	2011 Shs'000
As at 1 July	2,923,821	2,154,394
Declared	1,099,181	1,099,181
Paid during the year	(826,681)	(329,754)
	3,196,321	**2,923,821**

b) Dividend proposed

	2012 Shs'000	2011 Shs'000
Proposed for approval at annual general meeting (not recognised as a liability)	**1,319,017**	**1,099,181**
Proposed dividend per share in Shs	**0.60**	**0.50**

33 (a). Cash Generated from Operations

Reconciliation of operating profit to cash generated from operations	2012	2011
	Shs'000	Shs'000
Profit before taxation	**4,045,190**	**3,651,307**
Adjustments for:		
Depreciation	4,848,372	4,549,421
Impairment loss on property, plant and equipment	-	63,092
Amortisation of intangible assets	34,823	31,874
Prepaid lease expense	42	44
Interest income (note 33(b))	(952,621)	(548,975)
Interest expense (note 33(c))	2,954,998	1,996,951
Unrealised foreign exchange loss/(gain) related to amount due from Kenya Power-deferred debt	71,370	(251,933)
Net gain on derecognition of treasury bonds	(55,839)	(24,088)
Amortisation of held-to-maturity treasury bonds	7,754	-
Reduction in actuarial deficit arising from valuation of retirement benefit liability in the year	(1,018,900)	(306,700)
Operating profit before working capital changes	**9,935,189**	**9,160,993**
Changes in working capital		
(Increase)/decrease in inventories	(787,324)	275,134
Decrease/(increase) in amounts due from Kenya Power	564,619	(4,195,871)
(Increase)/decrease in other receivables	(4,393,947)	2,359,843
Increase in amount due from Ministry of Energy	(743,604)	(3,258,033)
Increase in trade and other payables	725,067	895,909
(Decrease)/increase in amount due to Kenya Power	(7,254)	7,704
Decrease in operating lease liability	(2,000)	(2,000)
(Decrease)/increase in leave pay provision	(30,972)	9,338
Cash generated from operations	**5,259,774**	**5,253,017**

(b) Reconciliation of interest received to interest income

Interest receivable at beginning of the year	109,776	271,326
Interest income	952,621	548,975
Interest received	(863,262)	(710,525)
Interest receivable at the end of the year	**199,135**	**109,776**

(c) Reconciliation of interest paid to finance costs

Accrued interest at beginning of the year	835,496	188,340
Interest expense	2,954,998	1,996,951
Interest paid	(2,988,302)	(1,349,795)
Accrued interest at the end of the year	**802,192**	**835,496**

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.

	2012	2011
	Shs'000	Shs'000
At the beginning of the year	453,662	531,728
Disbursements from the Ministry of Energy	946,133	3,903,500
Receipts from sale of electricity	10,442,305	5,806,949
Interest income	101,957	12,441
Expenditure during the year	(11,574,733)	(9,800,956)
As at the end of the year	**369,324**	**453,662**

The company earned Shs 126.967 million in the year (2011: 62.946 million) in relation to managing these projects. This revenue is disclosed under note 4 of these financial statements.

35. Contingent Liabilities

i. Disputed claim for water charges for hydro-generation

The Water Resource Management Rules 2007 (Water Regulations) was Gazetted by the Government through legal notice No. 171 of September 2007. The regulation provided for water use charge at the rate of 0.05KSh/kWh for hydropower generation for plants with capacity of over 1MW. Water Resource Management Authority (WARMA) sought to implement the prescribed charges for Hydro Power Generation by issuing demand notices to the Company for payment amounting to Shs 199 million including interest as owing and due to it from the onset of Water Regulation up to 30th September 2008.

The company declined to pay since the mechanism of recovery had not been approved by Energy Regulatory Commission prompting WARMA to file a case in the High Court. By a Ruling dated 15th October 2011, the court ruled in favour of the applicant. The Company made partial payment of Shs 129million and has appealed the court's decision. The Authority has further issued invoices inclusive of interest charges for the period up to December 2011 bringing the total unpaid amount to Shs 522 million out of which Ksh 71million has been accrued for in these financial statements.

Following the company's application to the Energy Regulatory Commission for recovery of water charges as pass- through from Kenya Power, the Commission approved the recovery of water charges effective from January 2012 and declined recovery of water charges for earlier periods which are the subject of a case at the Energy Tribunal. The directors believe that the company will be successful in defending this case and have water use charges a pass-through.

ii. 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.

iii. 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.

iv. 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.

35) Contingent Liabilities (continued)

v. 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 2012 amounted to Shs 1.754 billion (30 June 2011Shs 3.697 billion).

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:

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2012			
Financial assets			
Amount due from Kenya Power – Deferred debt	-	1,401,133	1,401,133
Recoverable foreign exchange adjustment	-	10,213,772	10,213,772
Cash and cash equivalents*	(868,537)	1,304,256	435,719
	(868,537)	**12,919,161**	**12,050,624**

36. Financial Risk Management (continued)
(i) Foreign currency risk (Continued)

	Ksh Shs '000	Others Shs '000	Total Shs '000
Liabilities			
Trade and other payables	(4,370,312)	-	(4,370,312)
Borrowings	(25,277,855)	(43,837,869)	(69,115,724)
	(29,648,167)	**(43,837,869)**	**(73,486,036)**
Net foreign currency liability	**(30,516,704)**	**(30,918,708)**	**(61,435,412)**
At 30 June 2011			
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)**

*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.

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	2012 Shs	2011 Shs
US$	64.9242	84.2333	89.8639
Yen	0.6404	1.0614	1.1155
Euro	100.793	105.96	130.21

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.

36. Financial Risk Management (continued)

(i) Foreign currency sensitivity analysis (Continued)

	Change in currency rate	Effect on Profit before tax	Effect on equity
		Shs' 000	Shs' 000
2012			
US$	-5%	(415,475)	(969,442)
YEN	-6%	(204,754)	(477,828)
EURO	-19%	(176,293)	(411,351)
Total		**(796,552)**	**(1,858,621)**
2011			
US$	10%	140,985	338,305
YEN	21%	8,381	18,536
EURO	30%	142,763	331,512
Total		**292,129**	**688,353**

(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.

(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	Past due but not impaired		Impaired	
	nor impaired	Over 60 days	Over 365 days	Over 365 days	Total
	Shs '000	Shs '000	Shs '000		Shs '000
At 30 June 2012					
Amount due from Kenya Power	4,752,108	1,756,436	713,233	170,941	7,392,718
Treasury bonds –available-for-sale	8,694,122	-	-	-	8,694,122
Foreign exchange adjustment receivables	10,213,772	-	-	-	10,213,772
Other receivables (excluding prepayments and taxes)	4,934,515	-	-	-	4,934,515
Amount due from Ministry of Energy	5,318,021	-	-	-	5,318,021
Cash and cash equivalents*	435,719	-	-	-	435,719
	34,348,257	**1,756,436**	**713,233**	**170,941**	**36,988,867**

36. Financial Risk Management (continued)
(b) Credit risk (Continued)

	Neither past due nor impaired	Past due but not impaired		
		Over 60 days	Over 365 days	Total
	Shs '000	Shs '000	Shs '000	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**

*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.

(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.

36. Financial Risk Management (continued)
(c) Liquidity risk (Continued)

The table below analyses maturity profiles of the financial liabilities of the company based on the remaining period using 30 June 2012 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
2012					
Trade and other payables	3,886,933	483,379	-	-	4,370,312
Less non-financial liabilities	(511,519)	-	-	-	(511,519)
	3,375,414	**483,379**	-	-	**3,858,793**
Amount due to Kenya Power	6,405	-	-	-	6,405
Borrowings	643,942	8,192,130	14,579,940	48,866,622	72,282,634
	4,025,761	**8,675,509**	**14,579,940**	**48,866,622**	**76,147,832**

	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**

(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.

	2012 Shs'000	2011 Shs'000
Equity	70,179,554	69,418,587
Borrowings	69,115,724	68,647,008
Less cash and cash equivalents	(435,719)	(3,115,598)
Net debt	**68,680,005**	**65,531,410**
Gearing ratio	**98%**	**94%**

37. Fair Values of Financial Assets ond 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 2012, 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 2012			
Treasury bonds-available-for-sale	6,252,888	-	-
30 June 2011			
Treasury bonds-available-for-sale	7,552,800	-	-

Liabilities measured at fair value:

As at 30 June 2012, 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:

	2012	2011
	Shs'000	Shs'000
Authorised but not contracted for	1,321,474	153,068,207
Authorised and contracted for	94,298,150	23,402,629
	95,619,624	**176,470,836**

39. Operating Segment Information

In accordance with IFRS 8, Operating segments, information reported to the company's chief operating decision makers (the Board of Directors) for the purposes of resource allocation and assessment of segment performance is focussed on the principal activities and the products offered by the company.

The company has one reportable segment; which is the generation of electricity.

a) Reported revenue
All the company revenues were generated from an external customer.

b) Geographical areas
All the company operations, revenues and assets are based in Kenya.

c) Major customers
The company operates in a regulated industry; all its revenue is derived from one single external customer (Kenya Power).

40. Comparatives

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

41. Currency

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

Access tunnel of the 225MW Gitaru Power Station

Five Year Statistical Information

KenGen recorded progressive and continuous improvement in both actual and performance availability as exhibited in the increase in capacity and sales.

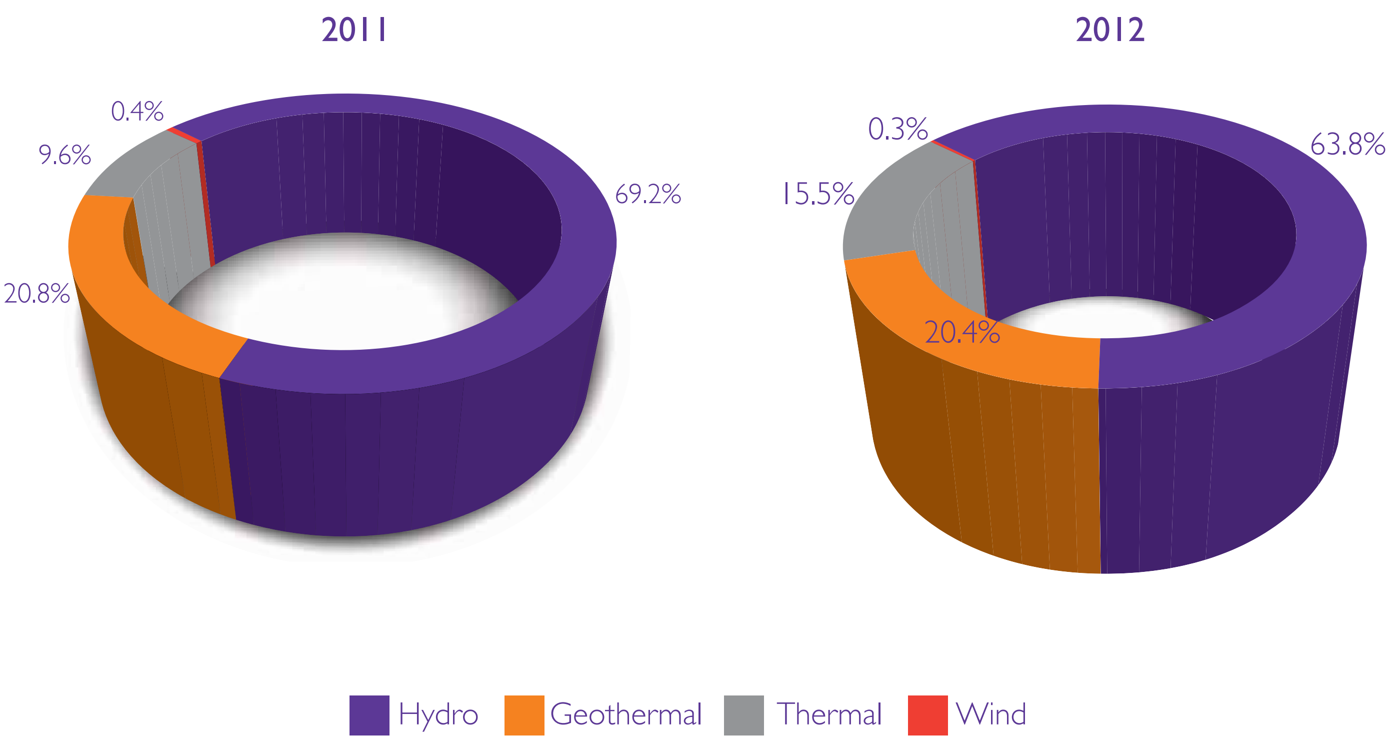
Financial Statistical Information

	2008	2009	2010	2011	2012
Units Sold(Gwh'Millions)	4,818	4,339	3,596	4,933	5,404
Weighted Average tariff(Kshs/Kwh)	2.36	2.42	2.42	2.42	2.42
	Kshs'mil	Kshs'mil	Kshs'mil	Kshs'mil	Kshs'mil
Electricity Sales	11,372	11,518	9,819	13,429	14,774
Other revenue	177	1,134	1,180	960	1,226
	11,548	**12,652**	**10,998**	**14,389**	**15,999**
Operating expenses	(8,012)	(8,247)	(8,558)	(10,014)	(10,266)
	3,537	**4,405**	**2,440**	**4,376**	**5,733**
Interest and Other income	340	907	786	1,273	1,284
	3,877	**5,312**	**3,226**	**5,648**	**7,017**
Finance costs	(798)	(756)	(741)	(1,997)	(2,972)
Profit before tax	**3,079**	**4,556**	**2,485**	**3,651**	**4,045**
Taxation	2,818	(2,485)	802	(1,571)	(1,223)
	5,897	**2,071**	**3,286**	**2,080**	**2,822**
Funds Generated from Operations:					
Net income for the year	5,897	1,164	3,286	2,080	2,822
Depreciation	3,404	3,843	3,829	4,550	4,848
Amortization of operating lease	0	0	0	32	42
Currency realignment	(9)	(176)	(131)	(252)	(153)
	9,292	**4,831**	**6,984**	**6,410**	**7,559**
Capital employed:					
Fixed assets less depreciation	91,822	92,699	102,231	116,786	120,665
Operating lease payment	1	1	1	1	35
Treasury Bonds	3,509	1,546	6,864	9,611	8,051
Intangible assets	304	544	695	664	896
Kenya Power-deferred debt	702	1,065	1,221	1,473	1,401
Kenya Power-current debt	4,678	5,195	3,591	7,786	7,222
Deferred assets-recovered forex	-	4,220	6,705	12,920	9,809
Net current assets	(1,608)	1,807	22,289	496	66
	99,408	**107,077**	**143,597**	**149,737**	**148,145**
Financed by:					
Share capital	5,496	5,496	5,496	5,496	5,496
Reserves	62,629	61,484	65,035	63,923	64,684
Prepaid lease	13	11	9	7	5
Retirement Benefits Scheme	339	1,490	1,419	1,112	94
Deferred tax	11,464	12,803	12,001	15,032	16,016
Loan capital	19,466	25,793	59,637	64,167	61,850
	99,408	**107,077**	**143,597**	**149,737**	**148,145**
Capital expenditure	7,897	4,731	13,361	19,170	9,020

Financial Ratios

	2008	2009	2010	2011	2012
Income for the year as % of Av. Capital employed	3.63%	4.60%	2.10%	1.42%	1.90%
Profit before tax, dividend & exeptional items/Net fixed assets in service	3.35%	4.92%	2.36%	3.13%	3.35%
Return on total assets	3.52%	4.89%	2.20%	1.29%	1.73%
Profit before tax, dividend(less exeptional items)/capital employed	1.11%	3.37%	1.77%	2.44%	2.73%
Current Ratio	1.4	2.2	4.7	1.7	1.5
Debt Service Coverage Ratio	4.99	3.90	4.50	2.43	2.55
Self Financing Ratio	74%	97%	60%	42%	38%

Contribution of each Generation Mode to Units Sold (%)



Units Generated and Sold (Gwh)

			2012		2011		2010		2009		2008	
	Installed (MW)	Effective (MW)	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales
HYDRO												
Tana	20	20.0	88.0	85.66	49.4	49.4	29	29	44	44	65	64
Wanjii	7.4	7.4	49.1	48.95	40.7	40.4	28	27	29	28	38	37
Kamburu	94.2	90.0	410.5	409.60	407.5	407.5	251	251	348	348	489	489
Gitaru	225	216.0	793.4	792.60	804.3	803.8	458	458	655	655	977	977
Kindaruma	64	44.0	185.2	184.62	191.3	191.2	109	109	157	157	241	239
Gogo	2	1.6	6.57	6.47	6.8	6.7	5.3	5	5.8	6	5.0	5
Sosiani	0.4	0.36	1.9	1.88	1.6	1.5	1.4	1	1.6	2	1.8	2
Mesco	0.4	0.0	0.0	0.00	0.0	0.0	0.3	0.2	2.6	3	2.8	3
Ndula	2	0.0	0.0	0.00	0.4	0.4	3.4	3	2.0	2	5.5	5
Sagana	1.5	1.5	10.7	8.88	8.0	8.0	8.4	8	5.9	6	7.8	8
Masinga	40	40.0	137.28	136.74	201.1	201.0	62	61	129	128	232	230
Kiambere	168	164.0	887.9	885.83	898.8	882.7	550	549	621	614	946	937
Turkwel	106	105.0	474.6	472.96	455.4	455.4	335	335	527	524	346	341
Sondu Miriu	60	60.0	409.6	408.84	364.3	364.3	321	321	333	333	151	150
Sangoro	21	20.0	6.72	6.7	0.0	0.0	0	0	0	0	0	0
Total Hydros	811.9	769.86	3461.4	3449.7	3430	3412	2161	2160	2861	2849	3508	3488
THERMAL												
Kipevu I	73.5	60.0	265.7	256.14	226.3	222.7	325	316	386	376	303	295
Kipevu III	120	115.0	535.2	524.82	227.0	227.0	0		0		0	
Total	193.5	175	800.8	781.0	453	450	325	316	386	376	303	295
GEOTHERMAL												
Olkaria I	45	44.0	292.1	278.89	236.0	235.1	366	366	384	368	372	359
Olkaria II	105	101.0	865.3	818.59	796.4	794.0	584	573	564	535	594	564
Eburru	2.5	2.3	0.9	0.78	0.0	0.0	0	0	0	0	0	0
Wellhead	5	4.4	2.920	2.90	0.0	0.0	0	0	0	0	0	0
Total Geothermal	157.50	151.70	1161.2	1101.2	1032	1029	951	939	948	903	966	922
GAS TURBINE												
Fiat - Nairobi South	0	0	0.0	0.0	0.0	0.0	0	0	9	9	8	7
JBE - Kipevu*	54	27	33.0	32.5	0.9	0.9	146	145	187	184	90	88
Total Gas Turbine	54	27	33.0	32.5	0.9	0.9	146	145	197	193	98	95
ISOLATED THERMALS												
Garissa	5.95	5	19.0	18.4	16.7	16.1	13	12.40	11	11	12	12
Lamu	2.78	2.28	6.7	6.6	7.0	6.9	7	6.51	6	6	6	6
Total Isolated	8.7	7.28	25.7	25.0	23.7	23.0	20	19	18	17	19	18
WIND												
Old Ngong Wind	0	0	0.0	0.0	0.0	0.0	0.02	0.02	0.3	0.29	0.2	0.17
New Ngong' Wind	5.1	5.1	15.2	14.6	17.7	17.7	16.29	16.29	0	0	0	0
Total Wind	5.1	5.10	15.2	14.6	17.7	17.7	16.3	16.30	0.3	0.29	0.2	0.17
Total	1,231	1,136	5,497	5,403.99	4,958	4,933	3,619	3,596	4,411	4,339	4,893	4,818

Installed Capacity (MW)

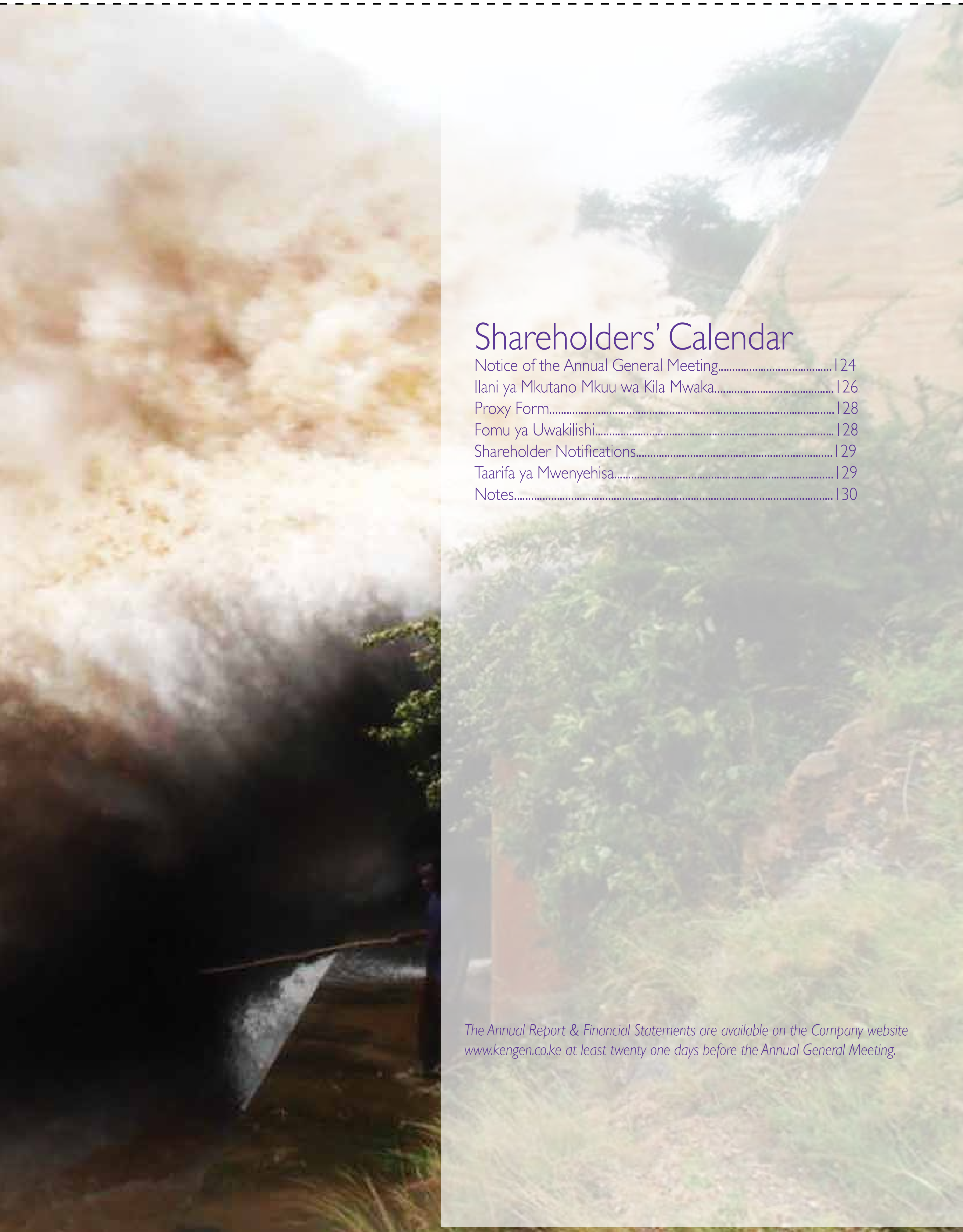
	2012	2011	2010	2009	2008
Hydro					
Tana	20	20	14.4	14.4	14.4
Kamburu	94.2	94.2	94.2	94.2	94.2
Gitaru	225	225	225.0	225.0	225.0
Kindaruma	64	40	40.0	40.0	40.0
Masinga	40	40	40.0	40.0	40.0
Kiambere	168	164	168.0	156.0	156.0
Turkwel	106	106	106.0	106.0	106.0
Sondu Miriu	60	60	60.0	60.0	60.0
Sang'oro	21	0	0.0	0.0	0.0
Small Hydros	13.7	13.7	14.7	13.7	13.7
Hydro Total	811.9	762.9	762.3	749.3	749.3
Thermal					
Kipevu Steam	0	0	0.0	0.0	-
Kipevu I Diesel	73.5	73.5	73.5	73.5	73.5
Kipevu III Diesel	120	120	0.0	0.0	-
Fiat- Nairobi South	0	0	0.0	13.5	13.5
Kipevu Gas Turbine*	54	27	60.0	60.0	60.0
Garissa & Lamu	8.7	8.87	5.4	5.4	5.2
Thermal Total	256.2	229.37	138.9	152.4	152.2
Geothermal					
Olkaria I	45	45	45.0	45.0	45.0
Olkaria II	105	105	105.0	70.0	70.0
Eburru	2.5	0	0.0	0.0	0.0
Wellhead	5	0	0.0	0.0	0.0
Geothermal Total	157.5	150	150.0	115.0	115.0
Wind					
Ngong	5.1	5.1	5.1	0.35	0.35
Total	**1,230.71**	**1,147.37**	**1,056.3**	**1,017.1**	**1,016.85**

Weighted Factors (%)

		2012		2011	
POWER STATION	Effective Capacity	Availability	Load Factor	Availability	Load Factor
Hydro					
Tana	20.0	71.31	50.11	83.08	17.94
Wanjii	7.4	89.52	70.16	76.11	62.83
Kamburu	90.0	96.62	48.83	96.25	48.40
Gitaru	216.0	84.98	40.14	97.78	40.98
Kindaruma	44.0	85.18	47.09	94.22	54.24
Gogo	1.6	77.96	32.53	95.38	38.92
Sosiani	0.4	91.25	52.67	83.84	44.43
Mesco	0.00	0	0	0.00	0.00
Ndula	0.0	0	0	75.04	5.18
Sagana	1.5	96.25	68.92	91.43	64.18
Masinga	40.0	98.77	10.42	90.34	57.44
Kiambere	164.0	96.74	60.17	95.11	62.67
Turkwel	105.0	90.59	51.09	86.28	50.01
Sondu Miriu	60.0	95.61	77.72	95.38	69.31
Sangor'o	20.0	0	0	0.00	0.00
Total Effective Capacity	769.86				
Weighted Factors - Hydros		88.66	48.25	94.02	51.70
Thermal					
Kipevu I	60.00	66.18	48.55	74.76	41.84
Kipevu III	115.00	92.92	51.82	96.53	61.79
Total Effective Capacity	175.00				
Weighted Factors - Thermal		83.75	50.70	89.15	55.03
Geothermal					
Olkaria I	44.0	73.11	74.10	78.45	63.95
Olkaria 2	101.0	85.5	94.5	99.04	97.39
Eburru	2.3	68.62	0.04	0.00	0.00
Wellhead Generator	4.4	0.5288	19.6	0.00	0.00
Total Effective Capacity	151.7				
Weighted Factors - Geothermal		79.19	84.98	92.86	87.36
Gas Turbines					
Fiat-Nairobi South	0.0	0	0	0.00	0.00
JBE-Embakasi *	27.0	42	6.28	100.00	0.17
Total Effective Capacity	27.0				
Weighted Factors - GT's		42	6.28	100.00	0.17
Isolated Thermal					
Garissa	5.00	74	39.30	83.70	53.13
Lamu	2.280	88.29	39.21	82.62	45.72
Total Effective Capacity	7.280				
Weighted Factors - Isolated Thermal		78.48	39.28	83.48	51.62
Wind Turbine					
Old Ngong Wind	0	0	0	0.00	0.00
New Ngong' Wind	5.1	69.3	38.05	86.39	40.19
Total Effective Capacity	5.10				
Weighted Factors - Ngong'		69.3	38.05	83.9	39.0

2010		2009		2008	
Availability	Load Factor	Availability	Load Factor	Availability	Load Factor
90.68	32.65	99.28	48.11	96.39	51.33
73.35	42.86	99.63	44.61	70.31	58.35
97.04	27.99	99.63	45.13	86.69	59.32
92.52	23.93	99.11	34.64	94.39	49.58
96.43	31.15	99.38	44.87	96.63	68.85
66.58	32.53	95.25	33.02	63.43	28.56
100.00	40.80	72.42	46.28	96.60	51.74
11.72	7.86	93.16	78.37	91.78	84.06
70.59	18.37	97.49	15.58	76.54	31.21
94.72	56.52	96.20	44.71	82.67	59.02
65.90	17.48	98.23	36.88	98.80	66.14
77.56	37.98	90.21	49.22	86.57	75.01
95.98	37.18	93.81	56.73	91.21	37.22
95.35	64.78	97.49	63.38	95.60	28.67
0.00	0.00	0.00	0.00	0.00	0.00
88.93	33.15	96.33	45.56	91.39	54.73
76.95	59.49	91.90	73.51	88.16	11.74
0.00	0.00	0.00	0.00	0.00	0.00
76.95	59.49	91.90	73.51	88.16	11.74
94.27	95.87	95.24	97.53	96.41	94.45
97.94	89.30	97.13	91.95	99.68	96.81
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
96.84	91.27	96.39	94.13	98.40	95.88
76.11	37.83	48.21	10.61	88.10	6.46
77.92	28.33	95.44	35.67	95.35	16.33
77.92	28.33	86.76	31.07	94.02	14.52
83.25	49.76	86.72	37.46	93.51	32.09
80.95	35.65	70.48	55.87	61.88	38.96
82.78	46.88	80.32	44.72	81.05	34.79
7.66	0.50	53.69	9.42	42.91	11.64
87.52	44.05	0.00	0.00	0.00	0.00
85.2	42.8	1.5	0.3	1.2	0.7

Spilling of Masinga Dam following heavy rains in December 2011



Shareholders' Calendar

The Annual Report & Financial Statements are available on the Company website www.kengen.co.ke at least twenty one days before the Annual General Meeting.

1. Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE SIXTIETH ANNUAL GENERAL MEETING of the Company will be held at the Kasarani Gymnasium, Thika Road, Nairobi on Wednesday, 28th November 2012 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 2012, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend of 24% or Kshs.0.60 per ordinary share of Kshs.2.50, subject to withholding tax where applicable, in respect of the financial year ended 30th June 2012.
5. To elect Directors:
   (i) Mr. Hedrick Omanwa 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) Mr. Henry M'Narobi 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.

   (iii) Ms. Sarah Wainaina 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.
6. To pass the following Ordinary Resolution:
   Special Notice pursuant to Section 142 and 186 (5) of the Companies Act Cap 486 of the Laws of Kenya having been received by the Company of the intention to move a resolution that Ms. Sarah Wainaina who has attained the age of 70 years be re-elected as a Director of the Company notwithstanding her having attained such age, to consider, and if thought fit, pass the following resolution as an Ordinary resolution:

   "That Ms. Sarah Wainaina who has attained the age of 70 years, and who retires by rotation be, and is hereby re-elected as a Director of the Company until she comes up for retirement by rotation under the Memorandum and Articles of Association of the Company".
7. To approve payment of Directors' fees for the year ended 30th June 2012.
8. 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.
9. To authorise the Directors to fix the remuneration of the Auditors.
10. Special Business:
    To consider and if approved, pass the following Special Resolution to amend the Company's Articles of Association:

    "That the Articles of Association of the Company be amended by adding a new Article 147 to read as follows:

    Article 147
    "The Company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets."
11. To consider any other business for which due notice has been given.

By Order of the Board

Rebecca Miano
Company Secretary

26 September 2012

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 Limited not later than Monday, 26th November 2012 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, P.O. Box 47936 - 00100 GPO, Nairobi.

Ilani Ya Mkutano Mkuu Wa Kila Mwaka

ILANI INATOLEWA KWAMBA MKUTANO MKUU WA KILA MWAKA WA SITINI wa Kampuni utaandaliwa katika Kasarani Gymnasium, Thika Road, Nairobi mnamo Alhamisi, Novemba 28, 2012 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, 2012, pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wahasibu zilizoambatanishwa.

4. Kupitisha malipo ya mgao wa mwisho wa asilimia 24 au Sh 0.60 kwa kila hisa ya kawaida ya Sh2.50 ikitegemea ushuru wa kushikilia inavyohitajika, kuhusiana na kipindi cha matumizi ya fedha kilichomalizika Juni 30, 2012.

5. Kuchagua Wakurugenzi:
   (i) Bw. Hedrick Omanwa 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) Bw. Henry M'Narobi anastaafu kwa zamu kwa mujibu wa Kifungu 104 cha Katiba ya Kampuni na kwa kuwa amehitimu, ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.

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

6. Kupitisha Azimio lifuatalo la Kawaida:
   Ilani maalumu kwa mujibu wa Sehemu ya 142 na 186 (5) ya Sheria ya Kampuni Sura 486 ya Sheria za Kenya baada ya kupokelewa na Kampuni kuhusu nia ya kuwasilisha azimio kwamba Bi. Sarah Wainaina ambaye amefikisha umri wa miaka 70 achaguliwe tena kama Mkurugenzi wa Kampuni licha ya kufikisha umri huo, na kutathmini, na ikiwa itaonekana sawa, kupitisha azimio lifuatalo kama Azimio la Kawaida:

   "Kwamba Bi. Sarah Wainaina ambaye amefikisha umri wa miaka 70 na ambaye anastaafu kwa zamu, achaguliwe, na amechaguliwa kama Mkurugenzi wa Kampuni hadi wakati atafikia wakati wa kustaafu kwa zamu kwa mujibu wa Katiba ya Kampuni".

7. Kuidhinisha malipo ya ujira wa Wakurugenzi kwa mwaka uliomalizika Juni 30, 2012.

8. 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.

9. Kuidhinisha Wakurugenzi kuamua mshahara wa Wahasibu.

10. Shughuli Maalumu:
    Kuthibitisha na, iwapo itakubaliwa, kupitisha Azimio Maalumu lifuatalo la kurekebisha Sheria za Kampuni:

    "Kwamba Sheria za Kampuni zirekebishwe kwa kuongeza kifungu kipya cha 147 ambacho kitasomeka kama ifuatavyo:

    Kifungu 147
    "Kampuni huenda, ikiwa itahitajika kisheria, kulipa au kuwasilisha kwa mamlaka yoyote ya udhibiti iliyoagizwa mali yoyote isiyodaiwa ikiwemo lakini isiyokuwa na ukomo wa hisa za Kampuni ambazo zinakisiwa zimeachwa au hazijadaiwa katika muda unaokubalika kisheria. Kufuatia malipo hayo au uwasilishaji huo, mali isiyodaiwa haitakuwa tena chini ya mikono ya Kampuni, na Kampuni haitawajibika tena kwa mmiliki au mwenye mali, ama mali yake, kuhusu mali hiyo ambayo haikudaiwa."

11. Kuangalia shughuli zingine zile ambazo ilani imepeanwa.

Amri ya Bodi

Rebecca Miano
Katibu wa Kampuni

Septemba 26, 2012

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.

   Fomu ya Uwakilishi inaweza patikana kwenye mtandao wa Kampuni katika www.kengen.co.ke, afisi rasmi za Kampuni, Stima Plaza, Kolobot Road, Parklands, Nairobi, au kwenye afisi rasmi za msajili wa hisa wa Kampuni, Image Registrars Limited, Transnational Plaza ghorofa ya nane 8, Mama Ngina Street, Nairobi.

   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 Jumatatu, Novemba 26, 2012 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, SLP 47936 - 00100 GPO, Nairobi.

2. Proxy Form

P.O. Box 47936 – 00100 GPO
NAIROBI

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, 28th November 2012 and at any adjournment thereof.

As witness my/our hand this ……………………. day of …………………………….2012.

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 Limited not later than Monday, 26th November 2012 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, namteua: ……………………… wa …………………………………………………………….

au akikosa ……………………………………………………… wa …………………………………...…………………………

na iwapo hataweza kuhudhuria, mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu, kupiga kula kwa niaba yangu/yetu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni utakaoandaliwa mnamo Jumatano 28 Novemba 2012 au wakati wowote ule endapo utaahirishwa.

Kama mashahidi sahihi yangu/yetu……………. siku ya …………………… 2012.

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 Jumatatu, 26 Novemba 2012 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 2012

Closure of Register and Date of Payment
The Register of Members will be closed from Thursday, 6th December to Friday, 7th December 2012, both dates inclusive.

If approved, the dividend will be paid, less withholding tax where applicable on or about Thursday, 31st January 2013 to the shareholders whose names appear in the Register of Members at the close of business on Wednesday, 5th December 2012.

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, 2012

Kufungwa kwa Rejista na Tarehe ya Malipo
Rejista ya wanachama itafungwa kuanzia Alhamisi 6 Decemba, 2012 hadi Ijumaa 7 Desemba 2012 siku zote zikiwemo.

Ikiwa itaidhinishwa, mgao wa faida utalipwa baada ya kuondoa ushuru wa kushikilia mnamo au karibu Ijumaa 31 Januari 2013, kwa wenyehisa ambao majina yao yamo kwenye Rejista ya Wanachama kufikia mwisho wa shughuli za siku mnamo Jumatano, 5 Decemba 2012.

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 kumili 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

KenGen

Energy for the nation

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