Kenya Electricity Generating Company Limited
An offer for sale by KenGen for a 10 year Public Infrastructure Bond Offer
Minimum Application Amount is Kshs 100,000

KenGen
Energy for the nation

INFORMATION MEMORANDUM

• Financial Advisor – KPMG Kenya • Arranger, Fiscal Agent & Collecting Bank – Standard Chartered Bank
• Sponsoring Broker & Lead Placing Agent – Standard Investment Bank Ltd • Legal Advisor – Hamilton Harrison & Mathews
• Reporting Accountants – PricewaterhouseCoopers • Receiving Agent & Registrar – Image Registrars Ltd
• Bond Trustee – Livingstone Registrars Ltd • Advertising Agency – Scanad Kenya • Public Relations Agency – Ogilvy PR

KENYA ELECTRICITY GENERATING COMPANY LIMITED

("KenGen" or the "Issuer" or the "Company")

KenGen was incorporated on 1 February 1954 under the Companies Act (Chapter 486 of the Laws of Kenya) under registration number C.20/55 and listed on the Nairobi Stock Exchange on 17 May 2006

INFORMATION MEMORANDUM

IN RESPECT OF AN OFFER OF FIXED RATE LONG TERM UNSECURED PUBLIC INFRASTRUCTURE BOND OF UP TO KENYA SHILLINGS 15 BILLION OR KENYA SHILLINGS 25 BILLION (INCLUDING GREENSHOE OPTION) DUE TO MATURE IN 2019 AT PAR AND LISTING OF THE BOND ON THE FIXED INCOME SECURITIES MARKET SEGMENT OF THE NAIROBI STOCK EXCHANGE

and incorporating a Bond Application Form

KenGen PUBLIC INFRASTRUCTURE BOND OFFER 2019
"KenGen INFRA BOND 2019" (NSE Code "KenGen/FXIB/2009/10 YR")
Proposed Listing 9 November 2009

Financial Advisor
KPMG Kenya

Arranger
Standard Chartered Bank Kenya Limited

Sponsoring Broker & Lead Placing Agent
Standard Investment Bank

Legal Advisor
Hamilton Harrison & Mathews

Reporting Accountants
PricewaterhouseCoopers

The date of this Information Memorandum is 28th August 2009

This Offer opens on 8 September 2009 and closes on 29 September 2009

THE GOVERNMENT OF THE REPUBLIC OF KENYA

Mr. Joseph Kinyua

Mr. Patrick Nyoike

To the Kenyan & International Investor Community

RE: KENYA ELECTRICITY GENERATING COMPANY LIMITED INFRANSTRUCTURE BOND (KenGen INFRA BOND 2019)

The Government of Kenya supports and has granted the requisite approvals under the State Corporations Act for the proposed Infrastructure bond (KenGen Infra-Bond 2019) that KenGen intends to issue in order to raise funds by way of a public Infrastructure Bond Offer denominated in Kenya Shillings to be issued in the Republic of Kenya.

On behalf of the Government of the Republic of Kenya ('GoK'), this is to confirm that:

1.As at the date of this letter, the GoK is the legal and beneficial shareholder of 70% of the issued shares in KenGen;

2.Consistent with the provisions of Section 43 of the Energy Act of 2006, GoK wishes to record that it is Government policy to ensure that KenGen operates in a cost effective manner and obtains sufficient revenue streams in order to maintain its financial integrity and to attract capital;

3.It is the Government's Policy that all exchange differences associated with foreign currency loans taken by KenGen to finance its electricity generation projects are passed on to KPLC under the various Power Purchase Agreements, for onward recovery from consumers of electricity. As such, KenGen does not suffer any exchange losses on repayment of its foreign currency denominated debts.

The Government notes and fully supports the electricity generation capacity expansion plan that KenGen is currently undertaking with a view to securing the country's electricity needs at the least cost. Accordingly, the Government of Kenya wishes to reiterate its continued support to KenGen's capacity expansion strategy and its active participation in meeting the electricity needs of the country.

The Government further appreciates that the proposed Bond Issue will deepen the fixed income securities of the capital markets in Kenya.

We welcome all interested investors to partner with the Government in the financing of our electricity generation capacity.

Thank You.

Joseph K. Kinyua, CBS
Permanent Secretary
Treasury

Patrick M Nyoike, CBS
Permanent Secretary
Ministry of Energy

KENYA ELECTRICITY GENERATING COMPANY LIMITED

(KenGen was incorporated on 1 February 1954 under the Companies Act Chapter 486 of the Laws of Kenya under Registration Number C.20/55 and listed on the Nairobi Stock Exchange on 17 May 2006)

On 2nd November 2009 or such other date as Kenya Electricity Generating Company Limited (**"KenGen"**, the **"Company"**, or the **"Issuer"**), KPMG Kenya (the **"Financial Advisor"**) and Standard Chartered Bank Kenya Limited (the **"Arranger"**) may agree (the **"Issue Date"**), the Issuer will, subject to compliance with all relevant laws and regulations, issue Kshs 15,000,000,000 12.5 % registered Fixed Rate Long Term Public Infrastructure Bonds due 2019 (the **"Bonds"**) (subject to an option to increase the amount of such issue by up to Kshs 10,000,000,000 (the **"Greenshoe"**) to a total aggregate principal amount of up to Kshs 25,000,000,000).

The Bonds will bear interest at a rate of 12.5 % per annum payable semi-annually in arrear on each 30 April and 31 October, subject to the Business Day convention, up to, and including, the Maturity Date (each an **"Interest Payment Date"**). Unless previously redeemed or cancelled in accordance with the Terms and Conditions, the Bonds will be redeemed at par on 31 October 2019 (the **"Maturity Date"**). The Bonds are subject to redemption in whole or in part on any Interest Payment Date from and including the Interest Payment Date falling on or nearest to 30 April 2012 at their principal amount at the option of the Issuer **("Early Redemption").** Further, it is the intention of the Issuer to redeem the Bonds on an instalment basis in sixteen equal instalments on each Interest Payment Date from the Interest Payment Date falling on or nearest to 30 April 2012 up to, and including, the Maturity Date.

In the event that the Nairobi Stock Exchange **("NSE")** and Central Depository & Settlement Corporation Limited (**"CDSC"**) will have operationalised the Central Depository System for bonds by the time the Bonds are listed, then the Bonds will be issued in immobilised form in Central Depository System Accounts (**"CDS"**) held at the CDSC and where applicable (i.e. at the option of an applicant) in certificate registered form, serially numbered and with interest coupon attached on issue, and will constitute registered debt obligations of the Issuer constituted by and owing under the Trust Deed. If the CDS system for Bonds will not be operational by the time the Bonds are listed, then all Applicants will receive the Bonds in certificated registered form as detailed above.

The Bonds will be issued in denominations of Kshs 100,000 and integral multiples thereof. Certificates evidencing (but not representing) an individual Bondholder's holding in the Bonds will be available upon request and will show the total amount of Bonds held by them. Such holding shall be expressed in denominations of Kshs 100,000 and integral multiples of Kshs 100,000 in excess thereof.
The Bonds constitute direct, general, unsecured, unsubordinated and unconditional obligations of the Issuer and rank pari passu among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, except for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Bonds will be marketed as a public offer to the general public. The Issuer intends to list the Bonds on the Fixed Income Securities Market Segment **("FISMS")** of the **("NSE")** following issuance. The rights of the Bondholders are governed by the terms and conditions of the Bonds (the **"Terms and Conditions"**) as contained in the Trust Deed dated on the date hereof (the **"Trust Deed"**) between the Issuer and Livingstone Registrars Limited (the **"Trustee"**). The sale of the Bonds by the Bondholders will be subject to the rules of the NSE, and the Terms and Conditions set out in this Information Memorandum. There are currently no other restrictions on the sale or transfer of Bonds under Kenyan law.

Application for approval of the issue of the Bonds has been made to, [and granted by], the Capital Markets Authority (**"CMA"** or **"Authority"**) of the Republic of Kenya. As a matter of policy, the Authority does not assume responsibility for the correctness of statements or opinions made or reports contained in this Information Memorandum. The approval of the Bonds by the Capital Markets Authority is not taken as an indication of the merits of the Issuer or of any investment in the Bonds. Application has been made to, and granted by, the Nairobi Stock Exchange for the Bonds to be issued and to be officially listed in the **FISMS**. The NSE assumes no responsibility for the correctness of any of the statements made or opinions or reports expressed or referred to in this Information Memorandum. Admission to the Official List of the NSE should not be taken as an indication of the merits of the Issuer or any investment in the Bonds. The directors of the Issuer, whose names appear on page **6** of the Information Memorandum, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with facts and does not omit anything likely to affect the import of such information.

A copy of this Information Memorandum having attached to it the documents required by section 43 of the Companies Act (Chapter 486 of the Laws of Kenya) (as specified within the Statutory and General Information below) has been delivered to the Registrar of Companies in Nairobi for registration

Cautionary Statement

See "Risk Factors" beginning on page (85) of this Information Memorandum to read about certain factors you should consider before investing in the Bonds. Information Memorandum dated 28th August 2009

IMPORTANT NOTICE

THIS DOCUMENT IS IMPORTANT FOR MAKING A DECISION TO INVEST AND REQUIRES YOUR CAREFUL ATTENTION AS IT INCLUDES HISTORIC, CURRENT AND FUTURE FINANCIAL INFORMATION

This Information Memorandum includes particulars given in compliance with the requirements of the Companies Act, the requirements of the Capital Markets Act, The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002, and the NSE listing rules and regulations.

This Information Memorandum should be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").

The Financial Advisor, the Arranger, and the other Bond Participants (including the Lead Placing Agent and the Bond Trustee) have relied on information provided by the Issuer herein. Accordingly, to the fullest extent permitted by law, none of the Financial Advisor, Arranger or the other Bond Participants accept any responsibility for the contents of this Information Memorandum (and do not provide assurance for the accuracy or completeness of the information contained in this Information Memorandum) or for any other statement, made or purported to be made by the Financial Advisor, Arranger or other Bond Participants or on their behalf in connection with the Issuer or the issue and offering of the Bonds.

Neither this Information Memorandum nor any other information supplied in connection with the Bonds or their distribution is intended to provide the basis of any credit or other evaluation and should not be considered as recommendations by the Issuer, the Financial Advisor, the Arranger or any of the other Bond Participants that any recipient of this Information Memorandum, or of any other information supplied in connection with the Bonds or their distribution, should purchase any of the Bonds

In making an investment decision in relation to the Bonds, investors are advised to seek independent advice (from their professional advisers) on the Issuer and the terms of the Bonds, including the merits and risks involved. An investment in the Bonds involves risks including, but not necessarily limited to, those set out under "Risk Factors" beginning on page 85.

No person has been authorised to give any information or to make any representations other than those contained in this Information Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorised. This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy securities by any person in circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Information Memorandum nor any sale made under this Information Memorandum in any circumstances implies that there has been no change in the affairs of the Issuer since the date of this Information Memorandum or that the information contained in this Information Memorandum is correct as of any time subsequent to its date.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bonds is correct as of any time subsequent to the date indicated in the document containing the same.

None of the Financial Advisor, the Arranger, the Bond Participants or the Trustee will review the financial condition or affairs of the Issuer during the life of the Bonds or advise any investor in the Bonds of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any Bonds.

The Bonds may not be offered or sold, directly or indirectly, and neither this Information Memorandum nor any form of application, advertisement, other offering material or other information relating to the Issuer or the Bonds may be issued, distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations. The Bonds have not been and will not be registered under any other securities legislation whether in Kenya or any other country. For a further description of certain restrictions on offers and sales of the Bonds and the distribution of this document see "Subscription and Sale".

Each investor contemplating purchasing the bonds should make his own independent investigation of the financial condition and affairs of issuer and his own appraisal of the credit worthiness of the issuer.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

(a) the most recently published audited financial statements as at 30 June 2008 and, the most recently published interim financial statements of the Issuer dated 31 December 2008; and

(b) all supplements or amendments to this Information Memorandum from time to time

Any statement contained in this Information Memorandum or in a document which is deemed to be incorporated by reference in this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated in this Information Memorandum modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Information Memorandum.

The Issuer will provide without charge for inspection to each person to whom a copy of this Information Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Information Memorandum.

Legal Advisor's opinion

Hamilton Harrison & Mathews, the Legal Advisors to the Issuer, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their letter and the references to their names, in the form and context in which they appear and have authorised the contents of their letter set out in **Appendix A** of this Information Memorandum.

Reporting Accountants' opinion

This Information Memorandum contains a statement from PricewaterhouseCoopers, the Reporting Accountants, which constitutes a statement made by an expert in terms of Section 42(1) of the Companies Act and have not withdrawn their consent to the issue of the said statement in the form and context in which it is included in **Appendix B** of this Information Memorandum.

GENERAL DESCRIPTION OF THE BOND/ISSUE

The Issuer will issue Bonds denominated in Kshs subject as set out herein. A summary of the Terms and Conditions of the Bonds appears under section 1 of this Information Memorandum. The applicable terms of the Bonds are set out in the Terms and Conditions of the Bonds endorsed on, or incorporated by reference into, the Bonds, or endorsed on, the Bonds.

DEFINITIONS

Defined terms used in this Information Memorandum shall, except where otherwise defined herein, have the meanings set forth in Appendix F "Master Definitions".

Enquiries concerning this Information Memorandum may be made to the Sponsoring Stockbroker and Lead Placing Agent or any Authorised Placing Agent.

CORPORATE INFORMATION

CURRENT DIRECTORS AND COMPANY SECRETARY OF KENGEN

Name	Designation	Nationality
Titus Mbathi	Non-Executive Chairman	Kenyan
Edward Njoroge	Managing Director & CEO	Kenyan
Joseph Kinyua	Non-Executive Director	Kenyan
Patrick Nyoike	Non-ExecutiveDirector	Kenyan
Sarah Wainaina	Non-Executive Director	Kenyan
Musa Ndeto	Non-Executive Director	Kenyan
George Njagi	Non-Executive Director	Kenyan
Dorcas Kombo	Non-Executive Director	Kenyan
Hedrick Omanwa	Non-Executive Director	Kenyan
Henry M'Narobi	Non-Executive Director	Kenyan
Peter Muriithi	Non-Executive Director	Kenyan
Humphrey Muhu	Alternate to Joseph Kinyua (Non-Executive Director)	Kenyan
John Omenge	Alternate to Patrick Nyoike (Non-Executive Director)	Kenyan
Rebecca Miano	Company Secretary/Legal & Corporate Affairs Director	Kenyan

CONTACT INFORMATION FOR THE ISSUER

Stima Plaza, Phase III, Kolobot Road, Parklands
P O Box 47936-00100, Nairobi
Tel: +254 20 3666000
Fax: +254 20 3666700

Edward Njoroge Managing Director & CEO Email: enjoroge@kengen.co.ke	Rebecca Miano Company Secretary/ Legal & Corporate Affairs Director Email: rmiano@kengen.co.ke	John Mudany Finance & Commercial Director Email: jmudany@kengen.co.ke

TRANSACTION ADVISORS AND AGENTS

FINANCIAL ADVISOR	ARRANGER, FISCAL AGENT & COLLECTING BANK
KPMG Kenya Lonrho House Standard Street P. O. Box 40612-00100 Nairobi, Kenya Contact: John Kiruthu	Standard Chartered Bank Kenya Limited Stanbank House Moi Avenue P. O. Box 30003-00100 Nairobi, Kenya Contact: Fred Michuki/ Salmon Kitololo
SPONSORING BROKER & LEAD PLACING AGENT	**LEGAL ADVISOR**
Standard Investment Bank Limited ICEA Building, 16th Floor, Kenyatta Avenue P. O. Box 13714–00800 Nairobi, Kenya Contact: Amish Gupta/Job Kihumba	Hamilton Harrison & Mathews Advocates ICEA Building, 4th Floor Kenyatta Avenue P. O. Box 30333-00100 Nairobi, Kenya Contact: Paras Shah/Andrew Mugambi
REPORTING ACCOUNTANT	**REGISTRAR & RECEIVING AGENT**
PricewaterhouseCoopers The Rahimtullah Tower, 7th Floor, Upper Hil P.O. Box 43963–00100 Nairobi, Kenya Contact : Richard Njoroge	Image Registrars Limited Transnational Plaza, 8th Floor, Mama Ngina Stree P. O. Box 9287-00100 Nairobi, Kenya Contact: Kipng'etich A.K. Bett
BOND TRUSTEE	**ADVERTISING AGENCY**
Livingstone Registrars Limited Kirungii House, Ring Road, Westlands P.O. Box 30029-00100 Nairobi, Kenya Contact: John Maonga	Scanad Kenya Limited The Chancery, Valley Road P. O. Box 34537-00100 Nairobi, Kenya Contact: Maureen Muthua
PUBLIC RELATIONS AGENCY	
Ogilvy PR CVS Plaza, 3Rd Floor, Kasuku Road P. O. Box 30280-00100 Nairobi, Kenya Contact: Okoth Obado	

OTHER CORPORATE INFORMATION

Company Secretary	Rebecca Miano, Kenya Electricity Generating Company Limited Stima Plaza, Kolobot Road, P. O. Box 47936-00100, Nairobi, Kenya	
Share Registrar	Image Registrars Limited Transnational Plaza, 8th Floor, Mama Ngina Street P. O. Box 9287 - 00100 Nairobi, Kenya	
Registered Office	Stima Plaza, Plot Number L.R. 209/5964 Kolobot Road, P. O. Box 47936-00100, Nairobi	
Financial Calendar	Financial Year ending – 30th June	
Auditors	For 2007/8, 2006/7 and 2005/6 financial years: Ernst & Young* Kenya-Re Towers P. O. Box 44286 – 00100 Nairobi * On behalf of the Controller and Auditor-General - appointed under section 39 of the Public Audit Act 2003.	
Principal Bankers	Kenya Commercial Bank Limited Kencom House, Moi Avenue P. O. Box 48400 - 00100 Nairobi, Kenya	The Co-operative Bank of Kenya Limited Stima Plaza, Kolobot Road P. O. Box 48231-00100 Nairobi, Kenya
	Commercial Bank of Africa Limited Wabera Street P. O. Box 30437-00100 Nairobi, Kenya	NIC Bank Limited NIC House Branch P. O. Box 44599 -00100 Nairobi, Kenya
	CfC Stanbic Bank Kenya Limited CFC Stanbic Centre P. O. Box 30550- 00100 Nairobi, Kenya	Standard Chartered Bank Kenya Limited Harambee Avenue P. O. Box 30003-00100 Nairobi, Kenya
	Citibank N.A Upper Hill P. O. Box 30711 – 00100 Nairobi, Kenya	
Company	The Company does not have any subsidiaries or joint ventures as at the date of publication of this Information Memorandum.	

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1. Summary of the Bonds

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by the remainder of this Information Memorandum and by the Terms and Conditions of the Bonds. Words and expressions defined in "Conditions of the Bonds" and "Form of the Bonds" below shall have the same meanings in this summary.

Item	Description
Issuer or Company:	Kenya Electricity Generating Company Limited
Name of Issue:	KenGen Infra Bond 2019
Financial Advisor:	KPMG Kenya
Arranger:	Standard Chartered Bank Kenya Limited
Sponsoring Broker & Lead Placing Agent:	Standard Investment Bank Limited
Legal Advisor:	Hamilton Harrison & Mathews
Reporting Accountants:	PricewaterhouseCoopers
Bond Trustee:	Livingstone Registrars Limited
Registrar and Receiving Agent:	Image Registrars Limited
Fiscal Agent and Collecting Bank:	Standard Chartered Bank Kenya Limited
Authorised Placing Agents:	All Members of the Nairobi Stock Exchange and the Commercial Banks listed in **Appendix D**.
Issue:	Fixed rate Bonds with a final maturity in 2019, subject to early redemption in accordance with the Terms and Conditions.
Amount:	Kenya Shillings fifteen billion (Kshs 15,000,000,000) subject to increase to up to Kenya Shilling twenty five billion (Kshs 25,000,000,000) pursuant to a Greenshoe Option for up to Kenya Shilling ten billion (Kshs 10,000,000,000).
Minimum Amount:	Kenya Shillings nine billion (Kshs 9,000,000,000).
Currency:	The Bonds will be denominated in Kenyan Shillings (**"Kshs"**).
Purpose:	The proceeds of the Bonds will be used to finance part of the Issuer's capital expenditure related to the Horizon 1 Projects.
Drawdown:	In one full amount upon application and allotment.
Issue Price:	The Bonds will be issued on a fully paid basis at par.
Tenor:	Ten (10) years.
Distribution:	Please refer to the section 16.1, "Allocation Policy" below.
Eligibility:	Both local and foreign investors whether individuals or corporates.
Interest Rate:	12.5 per cent per annum, payable semi-annually in arrear.
Interest Payment:	Interest on the Bonds will be paid semi-annually in arrear (each such date an "Interest Payment Date") commencing six (6) months after the date of issue. Interest will be calculated on the basis of a 365-day year, or 366-day year in the case of a leap year.

Redemption by instalments:	Unless redeemed in accordance with the Early Redemption provision described below, the Bonds are scheduled to be redeemed in sixteen (16) equal semi-annual instalments with the first payment being made after a two (2) year grace period as further described in the Terms and Conditions. Each instalment payment will be effected through an equivalent reduction in the amount outstanding of each Bond.
Early Redemption:	The Issuer may, upon thirty (30) days written notice before a Principal Repayment Date (as defined in the Terms and Conditions), prepay any outstanding amount of the Bonds. Any such prepayment shall be on a Principal Repayment Date but may not be made before the First Principal Repayment Date. Any single partial early redemption of the Bonds shall be of an aggregate principal amount of not less than **Kshs 937.5 million.** Any such notice by the Issuer shall be irrevocable, shall specify the Principal Repayment Date upon which such prepayment shall occur, and the amount of the reduction in outstanding amount of Bonds and once given shall oblige the Issuer to make such reduction. The amount of each Early Redemption shall either be applied to the Instalment Amounts in inverse order of maturity of the Instalments or pro rata against Bondholders' holdings as evidenced in the Register to be maintained by the Registrar. The exact criteria to be applied shall be advised in writing by the Issuer in the relevant Early Redemption notice. The Issuer shall not provide compensation for early redemption of the Bonds. Each Early Redemption payment (if not in full) will be effected through an equivalent reduction in the amount outstanding of each Bond.
Form of the Bonds:	In the event that the NSE and CDSC will have operationalised the Central Depository System for bonds by the time the Bonds are listed, then the Bonds will be issued in immobilised form in Central Depository System accounts (CDS) held at the Central Depository & Settlement Corporation Limited (CDSC) and where applicable, at the option of the applicant, in certificated registered form, serially numbered and with interest coupons attached on issue, and will constitute registered debt obligations of the Issuer constituted by and owing under the Trust Deed. If the CDS system for Bonds will not be operational by the time the Bonds are listed, then all Applicants will receive the Bonds in certificated registered form as detailed above.
Denomination of the Bonds:	The Bonds will be issued in denominations of **Kshs 100,000** and integral multiples of Kshs 100,000 in excess thereof. The Certificates evidencing (but not representing) an individual Bondholder's holding in the Bonds will show the total amount of Bonds held by them.

Status of the Bonds:	The Bonds constitute direct, general, unsecured, unsubordinated andunconditional obligations of the Issuer, which will at all times rank pari passu among themselves and at least equally with all other present and future, unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Taxation:	The interest on the Bonds for the time being is exempt from taxation. Should there be a change in law, then payments of principal and interest on the Bonds will be made subject to any withholding or deduction for any taxes of whatsoever nature without the Issuer being obliged to pay additional amounts as a consequence thereof.
Method of Issue:	The Bonds will be issued by way of public placement.
Delivery of the bonds:	If the CDS for bonds is operational by the time the Bonds are listed, then the Bonds will be uploaded into the CDS accounts on the date specified in the timetable. Applicants who elect to receive Bond Certificates, will collect the Bonds through the Authorised Placing Agent through whom the Bond Application Form was submitted on the relevant date specified in the timetable. This will also apply to all applicants in the event that the CDS for bonds will not be operational by the time the Bonds are listed.
Compliance:	The placement of the Bonds shall comply with the following: a) the requirements of the Capital Markets Authority and Nairobi Stock Exchange for approval of the listing of the Bonds; b) the Capital Markets Authority and Nairobi Stock Exchange reporting requirements from time to time; c) the provisions of the State Corporations Act (Chapter 446, Laws of Kenya); and d) any other applicable provisions of the law in Kenya relating to companies and capital markets that is in existence or that may be passed before the issue of the Bonds or during the pendency of the issue of the Bonds.
Listing and Trading:	Application has been made to list the Bonds on the Fixed Income Securities Market Segment of the Nairobi Stock Exchange. Secondary market trading of the Bonds will be exclusively dealt with and settled through the Nairobi Stock Exchange.
Default Interest:	The rate per annum, which is the aggregate of the Fixed Interest Rate plus a default margin of 2%.

Negative Pledge:	Please see the section entitled "Negative Pledge" in the Terms and Conditions of the Bonds.
Undertaking to establish a standby credit facility or maintain an adequate debt service reserve account	The Issuer shall ensure that it will at all times maintain adequate funds to meet the principal and interest obligations under the Bonds through (at its discretion) either: a) a standby credit facility extended by its bankers; or b) maintenance of adequate funds in the Issuer's bank accounts for purposes of principal and interest payments.
Events of Default:	Please see the section entitled "Events of Default" in the Terms and Conditions of the Bonds
Meetings of Bondholders:	The Trust Deed will contain provisions for convening meetings of Bondholders to consider matters affecting their interests as further described in the Terms and Conditions.
Local Investor:	The Capital Markets (Foreign Investors) Regulations, 2002 as amended ("the Foreign Investors Regulations") has the following definitions: "Local investor" in relation to an individual, means a natural person who is a citizen of an East African Partner State; and in relation to a body corporate, means a company incorporated under the Companies Act of Kenya or such similar statute of an East African Partner State in which citizens of an East African Partner State or the Government of an East African Partner State have beneficial interest in one hundred per centum of its ordinary shares for the time being or any other body corporate established or incorporated in an East African Partner State under the provisions of any written law.
East African Community Partner States:	The East African Community Partner States include such states as may be deemed to be the members from time to time of the East African Community, currently Kenya, Uganda, Tanzania, Rwanda and Burundi. Citizens of those States and corporate persons incorporated or registered in those States, in which citizens of those States hold one hundred per centum of the beneficial interest should therefore declare their status as local investors and provide supporting evidence. Whereas the Regulations as stated above include citizens of East African Community States as local investors, this Information Memorandum and the Application Form may not be used for, or in connection with, any offer, or solicitation by, anyone in the East African Community Partner States where such offer or solicitation is not authorized or is otherwise unlawful in the said jurisdictions.

Foreign Investor:	"Foreign investor" means any person who is not a local investor.
Selling Restrictions:	There are restrictions on the offer and sale of the Bonds in Kenya and in other jurisdictions, as more fully described in the Subscription and Sale section of the Information Memorandum.
Expenses:	All expenses incurred in connection with the negotiation, preparation, printing, execution, placement, enforcement and any amendment of the Bond documents will be for the Issuer's account.
Governing Law:	The Bonds will be governed by, and construed in accordance with, Kenyan law.

1.1 Timetable

ACTIVITY	TIMING	DATE
Offer Opens	**T+0**	**9.00 am on 8 September 2009**
Offer Closes	**T+21**	**3.00 pm on 29 September 2009**
Announcement of Allocation Results*	T+50	28 October 2009
Final Date of Payment against Guarantees/Commitments	T+ 52	30 October 2009
Issue Date	**T+55**	**2 November 2009**
Commencement of electronic crediting of CDS accounts (if applicable) and issuance of Bond Certificates to Authorised Placing Agents	T+55	2 November 2009
Commencement of payment of Refunds through Electronic Funds Transfer or Refund Cheques	T+55	2 November 2009
Deadline for collection of refund cheques and Bond Certificates by applicants from Authorised Placing Agents	T+59	6 November 2009
Bond Certificates by applicants from Authorised Placing Agents Listing and commencement of trading on the Nairobi Stock Exchange	**T+62**	**9.30 am on 9 November 2009**

**This announcement will be made through public media*

1.2 Offer statistics for KenGen

1	Total asset value of KenGen as per balance sheet 31 December 2008 **(30 June 2008: Kshs 107 billion)**	Kshs 107 bn
2	Minimum amount of a Bond	Kshs 100,000
3	Offer Price per Bond	At par
4	Value of the Bonds being sold by KenGen under the Offer	Kshs 15 bn
5	Minimum amount required (60% of Kshs 15 billion)	Kshs 9 bn
6	Greenshoe option – maximum offer	Kshs 10 bn
7	Term of the fixed rate Bonds	10 years
8	Average life of the Bond	6.25 years
9	Yield to maturity (net of tax)	12.5 %
10	Yield to maturity (pre-tax assumes taxation is at 30%)	17.86 %
11	Principal Redemption (without Greenshoe) every six months of	Kshs 0.9375 bn
12	Principal Redemption (with Greenshoe) every six months of	Kshs 1.5625 bn
13	First Interest Payment Date	30 April 2010
14	Principal Redemption Dates every six months beginning	30 April 2012
15	Proforma Total Assets per share immediately post-Offer (without Greenshoe) as at 31 December 2008 (30 June 2008: Kshs 55.49)	Kshs 55.58
16	Proforma Total Asset per share immediately post-Offer (with Greenshoe) as at 31 December 2008 **(30 June 2008: Kshs 60.04)**	Kshs 60.13
17	Estimated costs of the Offer to KenGen (Kshs)	Kshs 0.229 bn
18	Debt headroom (taking 7/3 Debt Equity Ratio) as at 31 December 2008 **(30 June 2008: Kshs 138.61 billion)**	Kshs 114.29 bn
19	Debt headroom (assuming exchange differences are carried as assets or liabilities and taking a Debt Equity Ratio of 7/3) as at 31 December 2008 **(30 June 2008: Kshs 142.52 billion)**	Kshs 130.49 bn

2. Form of Certificate evidencing individual holdings in the Bonds

KENYA ELECTRICTY GENERATING COMPANY LIMITED

(Incorporated in Kenya under the Companies Act (Cap 486)), Reg. No C. 20/55

KSHS 15,000,000,000/=
Fixed Rate Bond due 31 October 2019 (the "Bond")

This Bond Certificate certifies that [] of [] (the **"Bondholder"**) is registered as the holder of a Bond of **[principal amount]** as set out in Schedule 1 hereto of Kenya Electricity Generating Company Limited (the **"Issuer"**) on the terms of the Trust Deed referred to in the terms and conditions (the **"Terms and Conditions"**) endorsed hereon as Schedule 2. The Bonds are subject to the Terms and Conditions and are issued subject to, and with the benefit of the Trust Deed and the Agency Agreement referred to in the Terms and Conditions. Expressions defined in the Terms and Conditions have the same meanings in this Bond Certificate.

The Issuer, for value received, promises to pay to the Bondholder amounts in respect of principal payable under the Bonds upon presentation and, when no further payment is due in respect of the Bonds, upon surrender of this Bond Certificate, and amounts in respect of interest payable under the Bond, in the amounts and on the dates for payment provided for in the Terms and Conditions together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions, in accordance with the Terms and Conditions.

For the purposes of this Bond Certificate,

(a) the holder of the Bond represented by this Bond Certificate is bound by the provisions of the Trust Deed and the Agency Agreement and the Terms and Conditions,

(b) the Issuer certifies that the Bondholder is, at the date hereof, entered in the Register as the holder of the Bond represented by this Bond Certificate,

(c) this Bond Certificate is evidence of entitlement only,

(d) title to the Bond represented by this Bond Certificate passes only on due registration in the Register, and

(e) only the holder of the Bond represented by this Bond Certificate is entitled to payments in respect of the Bond represented by this Bond Certificate.

This Bond Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

The Bond Certificate shall be governed by and construed in accordance with Kenyan law.

In witness whereof the Issuer has caused this Bond Certificate to be executed on its behalf.

Dated [].

By:________________________________ ________________________________

Director **Director/ Company Secretary**

Salient Features of the Bond

Principal Amount:	....	Maturity Date:	31 October 2019
Issue Date	2 November 2009	Rate of Interest:	

CERTIFICATE OF AUTHENTICATION

This Bond Certificate is authenticated by the Registrar.

IMAGE REGISTRARS LIMITED

as Registrar

By:

Authorised Signatory

(For the purposes of authentication only)

Schedule 1

Number held and principal amount outstanding of the Bondholder's Bonds

Reductions in the principal amount of the Bonds evidenced by this Certificate following repayment by instalment or early redemption in part of the Bonds are set out below.

Date	Face value of each Bond held before change (in Kshs)	Reason for change in the principal amount outstanding of each Bond (state either "Early Redemption" or "Instalment Payment" or both)	Total aggregate principal amount outstanding of Bonds held by the Bondholder following such change (in Kshs)	Seal or signature of the Registrar certifying such change and that the relevant payment to the Bondholder has been made

Schedule 2

Terms and Conditions of the Bonds

(TERMS AND CONDITIONS TO BE APPENDED TO THIS CERTIFICATE ON ISSUE)

3. Terms and conditions of the Bond

The following are the Terms and Conditions of Bond which will be endorsed upon the Bonds.

This Kshs 15,000,000,000 (or Kshs 25,000,000,000 including the Greenshoe Option) 12.5 per cent Infrastructure Bond due 31 October 2019 (the **"Bonds"**) is issued by Kenya Electricity Generating Company Limited (the **"Issuer"**), constituted by a trust deed, (such Trust Deed as modified and/or supplemented and/or restated from time to time the "**Trust Deed"**) dated 28th August 2009 made between the Issuer and Livingstone Registrars Limited (the **"Bond Trustee"** which expression shall include any successor trustee appointed in accordance with the provisions of the Trust Deed). The Trustee acts for the benefit of the Bondholders (as defined above) in accordance with the provisions of the Trust Deed.

The Bonds also have the benefit of an Agency Agreement dated 28th August 2009 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **"Agency Agreement"** and made between the Issuer, the Bond Trustee, Fiscal Agent and Registrar (each an **"Agent"** which expression shall include any successor Agent).

Copies of the Trust Deed, and the Agency Agreement (together, the **"Transaction Documents"**) for the Bonds, are available for inspection during normal business hours at the Specified Offices of the Agents and at the Specified Office of the Trustee. The Bondholders are deemed to have notice of, are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and the Agency Agreement.

The issue of the Bonds is authorised pursuant to a resolution of the Board of Directors of the Issuer passed on **17 April 2009.**

Words and expressions defined in the Trust Deed, and the Agency Agreement, shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail.

Any reference to a statute, any provision thereof or to any statutory instrument, order or regulation made thereunder shall be construed as a reference to such statute, provision, statutory instrument, order or regulation as the same may have been, or may from time to time be, amended or re-enacted.

Headings and sub-headings are for ease of reference only and shall not affect construction.

1. Constitution, form and denomination

1.1. Constitution and Form

The Bonds constitute registered debt obligations of the Issuer constituted by and owing under the Trust Deed and take the form of entries in the Register. Each entry in the Register constitutes a separate and individual acknowledgement to the relevant Bondholder of the indebtedness of the Issuer to the relevant Bondholder.

In the event that the Nairobi Stock Exchange ("NSE") and Central Depository & Settlement Corporation Limited ("CDSC") will have operationalised the Central Depository System for bonds by the time the Bonds are listed, then the Bonds will be issued in immobilised form in Central Depository System Accounts ("CDS") held at the CDSC and where applicable at the option of the applicant in certificate registered form, serially numbered and with interest coupons attached on issue, and will constitute registered debt obligations of the Issuer constituted by and owing under the Trust Deed. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar. If the CDS system for Bonds will not be operational by the time the Bonds are listed, then all Applicants will receive the Bonds in certificated registered form as detailed above.

1.2. Independent obligations

The obligations of the Issuer in respect of each Bond constitute separate and independent obligations which the Bondholder to whom those obligations are owed is entitled to enforce subject to the Terms and Conditions and the Agency Agreement and the Trust Deed.

1.3. Currency

The Bonds will be denominated in Kenya Shillings **("Kshs").**

1.4. Denomination

The Bonds will be issued in the denomination of **Kshs 100,000** or integral multiples of Kshs 100,000 in excess there of . On the Issue Date the Certificates evidencing (but not representing) an individual Bondholder's holding in the Bonds will show the total amount of Bonds held by them. Such value shall be expressed in denominations of **Kshs 100,000** and integral multiples of Kshs 100,000 in excess thereof. After the issue date, the minimum values set at above will be subject to a proportional downward adjustment in the event that the issuer exercises its right under condition 7.

2. Title and registration

2.1. Title

Subject to the terms and conditions set out below, title to the Bonds will pass on the settlement date as defined in the CDSC Rules (if applicable); or upon registration of transfers in the Register of Bondholders (as defined below). The Issuer and the Registrar may deem and treat the registered holder of any Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes. In these conditions **"Bondholder"** and (in relation to a Bond) "holder" means the person in whose name a Bond is registered in the Register of Bondholders.

2.2. Registration

a) Register

The Issuer will cause to be kept at the Specified Office of the Registrar a register (the **"Register"**) on which shall be entered the names and addresses of the Bondholders (as defined below) and the particulars of the Bonds held by them and of all transfers and redemption of Bonds.

b) Register conclusive

Entries in the Register in relation to a Bond constitute conclusive evidence that the person so entered is the registered owner of the Bond subject to rectification for fraud or error. No Bond will be registered in the name of more than three (3) persons. A Bond registered in the name of more than one person is held by those persons as joint owners. Bonds will be registered by name only without reference to any trusteeship. The person whose name is entered in the Register as the Bondholder is deemed, except as ordered by a court or as required by statute, to be and may be treated as absolute owner of the Bond in all circumstances, whether or not payment under the Bond is overdue and regardless of any notice of ownership, trust or interest in respect of the Bonds and no person is, except as ordered by a court or as required by statute, obliged to take notice of any other claim to the Bonds.

c) Holder Absolutely Entitled

Upon a person acquiring title to any Bond by virtue of becoming registered as the owner of that Bond, all rights and entitlements arising by virtue of the Agency Agreement and the Trust Deed in respect of that Bond vest absolutely in the registered owner of the Bond, such that no person who has previously been registered as the owner of the Bond has or is entitled to assert against the Issuer or the Registrar or the registered owner of the Bond for the time being and from time to time any rights, benefits or entitlements in respect of the Bond.

d) Location of Register

The Register will be established and maintained at the Specified Office of the Registrar unless otherwise agreed between the Issuer, the Fiscal Agent and the Registrar.

e) Acknowledgement

Where a clearing system or a central depository (each a **"relevant person"**) is recorded in the Register as the Bondholder, each person in whose account that Bond is recorded is deemed to acknowledge in favour of the Registrar and each relevant person that:

(i) the Registrar's decision to act as the Registrar of the Bond does not constitute a recommendation or endorsement by the Registrar or the relevant person in relation to the Bond but only indicates that such Bond is considered by the Registrar to be compatible with the performance by it of its obligations as Registrar under its agreement with the Issuer to act as Registrar of the Bond; and

(ii) the Bondholder does not rely on any fact, matter or circumstance contrary to Sub-condition 2.2.(e)(i) above.

3. Security, negative pledge and financial covenants

3.1. Security

This Bond is unsecured.

3.2. Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer shall neither create nor permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness without at the same time or prior thereto (i) securing all amounts payable under the Bonds and the Trust Deed equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for all amounts payable under the Trust Deed as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

In these Conditions:

"Relevant Indebtedness" means any present or future Indebtedness of the Issuer evidenced by notes, bonds or other securities which are to be, at the request or with the prior consent of the Issuer, quoted, listed or dealt in for the time being on any stock exchange or other similar generally recognised market for securities.

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

3.3. Financial Covenants

The Issuer covenants to the Bond Trustee on behalf of the Bondholders as follows:

(a) Its assets shall be maintained in good condition and where applicable, be comprehensively insured and assigned for the full market value at all times. Unless otherwise arranged, the Bonds Trustee will be entitled, though not obliged, to make payment of the premium directly to the insurer by debiting the Issuer's accounts two (2) weeks before expiry of the insurance.

(b) It shall as soon as the same become available (and in any event within **4** months of its Financial Year-end), deliver to the Bonds Trustee two copies of the audited accounts together with a copy of the management letter (if any) addressed by the Auditors to the directors of the Issuer.

(c) It shall as soon as the same becomes available (and in any event within **60** days after the end of each period of 3 months during each of its Financial Years), deliver to the Bonds Trustee two copies of its Management Accounts.

(d) There will be no change in control of the Issuer without the prior written consent of the Trustee which will not be unreasonably withheld. For the purposes of this Condition 3.3.(d), a person (whether alone or together with any Associated Person (as defined below) has control of the Issuer if it becomes the beneficial owner of shares in the issued share capital of the Issuer carrying the right to exercise more than 50 per cent of the votes exercisable at a general meeting of the Issuer.

(e) On each payment date, the Debt Service Coverage Ratio (calculated on a 12 month rolling basis) will be no less than 1.0 in the first year (from issuance of the Bonds) and 1.2 in the second year and 1.5 in subsequent years for as long as the Bonds remain in effect.

(f) On each Payment Date, the ratio of Total Debt to Tangible Net Worth shall not be greater than **7:3.**

(g) The Current Ratio shall not be less than **1** from 1 July 2009 onwards.

(h) The Issuer shall ensure that it will maintain adequate funds to meet the principal and interest obligations under the Bonds at least 14 Business Days before the due date of any such payment through (at its discretion) either:

i) credit facilities extended by its bankers; or

ii) maintenance of adequate funds in the Issuer's bank accounts for purposes of the relevant principal and interest payments for the Bonds.

(i) Until the Bonds are fully repaid the Issuer shall provide the Bond Trustee with bi - annual reports in respect of any Horizon1 projects financed by the Bonds.

In these Conditions:

(i) "Total Debt" means at any time the aggregate (without double counting) of:

(A) that part of the Indebtedness of the Issuer which relates to obligations (whether present or future, actual or contingent and whether incurred as principal or surety) for the payment or repayment of money in respect of principal incurred in respect of (aa) moneys borrowed or raised, (bb) any bond, note, loan stock, debenture or similar instrument, or (cc) any acceptance credit, bill discounting, bond purchase, factoring or documentary credit facility (including, for the avoidance of doubt, any indebtedness under the Trust Deed); and

(B) the capital element of all rentals or, as the case may be, other payments payable under any finance lease entered into by the Issuer.

(ii) "Tangible Net Worth" means at any time the aggregate of the Net Worth:

but adjusted by:

(A) adding any credit balance on the profit and loss account of the Issuer (to the extent not already included) or, as the case may be, deducting any debit balance on the profit and loss account of the Issuer;

(B) deducting any dividend or other distribution declared, recommended or made by the Issuer (other than to the Issuer) out of profits earned up to and including the date of the latest balance sheet of the Issuer to the extent that such distribution is not provided for in the latest balance sheet of the Issuer;

(C) deducting any amounts in respect of any non-purchased goodwill or other intangible assets;

(D) excluding any amount by which the net book value of any asset of the Issuer has been written up after [30 June 2008] by way of revaluation;

(E) reflecting any variation since the date of the latest balance sheet of the Issuer in the amount paid up or credited as paid up on the issued share capital of the Issuer and in the consolidated reserves of the Issuer (other than in the profit and loss account of the Issuer); and

(F) excluding the amount paid up or credited as paid up on any redeemable share capital of the Issuer which is redeemable or may on the occurrence of certain events be redeemable before the Final Repayment Date, and excluding any element of consolidated reserves attributable to that redeemable share capital, but so that no amount shall be included or excluded more than once in the same calculation, and, for the avoidance of doubt, taking no account of any amount set aside for Taxation or attributable to minority interests.

(iii) " Current Ratio" means the ratio of Current Assets to Current Liabilities.

(iv) "Current Assets" means the aggregate at such time of any assets of the Issuer which would, in accordance with international generally accepted accounting principles and applied on a consistent basis, be classified as current assets.

(v) "Current Liabilities" means the aggregate at such time of the obligations of the Issuer to pay money on demand or within 1 year from the relevant time and any other obligations of the Issuer which would, in international generally accepted accounting principles and applied on a consistent basis, be classified as current liabilities.

(vi) "Debt Service Cover Ratio" means in respect of any period:

(a) The cash flow available for debt service in respect of that period; to

(b) The debt service for that period.

(vii) "Associated Person" means, in relation to any person, a person who is (A) acting on concert with that person or (B) a connected person of that person.

(viii) "Management Accounts" means management accounts of the Issuer for each 3 month period during each of its Financial Years such period in form and substance satisfactory to the Bond Trustee.

4. Status of bonds

The Bonds constitute direct, general, unsecured, unsubordinated, and unconditional obligations of the Issuer which will at all times rank pari passu among themselves and at least equally with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application..

5. Interest

5.1. Interest on Bonds

The Bonds bear interest from 2 November 2009 (the **"Issue Date"**) at the rate of 12.5 per cent. per annum (the **"Fixed Interest Rate"**), payable semi-annually in arrear on 30 April and 31 October in each year from and including 30 April 2010 up to, and including, 31 October 2019 (the **"Maturity Date"**), subject in each case to the Business Day Convention (each an **"Interest Payment Date"**).

5.2. Calculation of Interest Amount

Interest in respect of any Bond shall be calculated on the principal amount of the Bonds outstanding (the **"Calculation Amount"**). The amount of interest payable per Calculation Amount for any Interest Period shall be equal to the product of the Fixed Interest Rate, the Calculation Amount and the Day Count Fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

"Day Count Fraction" means, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365).

"Interest Period" means each period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date.

If interest is required to be calculated for a period other than an Interest Period, the day count fraction used will be the actual number of days in the relevant period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the relevant period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the relevant period falling in a non-leap year divided by 365)

5.3. Notification of Rate of Interest and Interest Amount

The Fiscal Agent or such other agent, will cause the Interest Amount for the relevant Interest Payment Date to be notified to the Issuer, any other Agents and the Registrar. The Issuer will ensure that it so notifies NSE, and will cause notice thereof to be published in accordance with Condition15, as soon as possible after their determination, but in no event later than the fourth Business Day (as defined in Condition 5.7) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the NSE and to the Bondholders in accordance with Condition 15.

5.4. Default Interest

If any sum payable by the Issuer under the Transaction Documents or these Conditions or under any judgment or award of any court or arbitral tribunal in connection therewith is not paid on the date on which it is due in accordance with the terms thereof or if any sum due and payable by the Issuer is not paid on the date of such judgment or award, the Issuer will pay interest on such sum for the period beginning on such due date or, as the case may be, the date of judgment or award, until payment is received by the Fiscal Agent (or as the Fiscal Agent may direct) in full at the rate of interest per annum which is the aggregate of the Fixed Interest Rate plus a default margin of 2%. Such interest will accrue on the basis set out in Condition 5.1.

5.5. Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this sub-paragraph 5.5 by the Fiscal Agent or Registrar shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee and all Bondholders. In the absence of willful default, bad faith, or manifest error, no liability to the Issuer, the Trustee or the Bondholders shall attach to the Fiscal Agent and the Registrar in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.6. Accrual of Interest

Interest on each Bond will cease to accrue in respect of any redeemed principal, unless payment of principal on the relevant Principal Repayment Date (as defined below) or the Early Redemption Date (as defined below) is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Bond have been paid: and

(b) the date on which the full amount of the moneys payable has been received by the Fiscal Agent and notice to that effect has been given in accordance with Condition 15 or individually.

5.7. Business Day Convention

If the due date for payment of any amount in respect of any Note is not a Business Day in the place of presentation, the holder shall not be entitled to payment of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay (the **"Business Day Convention"**).

In these Terms and Conditions, **"Business Day"** means a day (other than a Saturday or Sunday or public holiday) which is a day on which commercial banks and foreign exchange markets settle payments in Nairobi or such other place in Kenya where commercial banks and foreign exchange markets settle payments.

6. Payments

6.1. Method of payment

(a) Payments of amounts due on the final redemption of the Bonds (the "Final Redemption Amounts") will be made against presentation or surrender of the relevant Certificates at the Specified Office of the Registrar, or otherwise in accordance with the CDSC Rules (if applicable).

(b) Payments of amounts due on any Early Redemption Amount will be made against presentation for endorsement (in the case of prepayment) or surrender (in the case of prepayment in full) of the relevant Certificates at the Specified Office of the Registrar, or otherwise in accordance with the CDSC Rules (if applicable).

(c) Payments of principal and interest will be made in Kenya Shillings by electronic funds transfer to the Bondholder as set forth in the Register.

Neither the Issuer, nor the Fiscal Agent, shall accept liability for any loss in transmission.

(d) Payments of principal and interest and any other amounts due in respect of the Bonds, will be paid to the holder shown on the register of Bondholders at the close of business on the date (the **"Record Date"**) being the fifteenth day before the due date for the payment of interest. A Bondholder's registered address means its address appearing on the register of Bondholders at that time.

For the purposes of this Condition, a Bondholder's registered account means the Kshs account maintained by or on behalf of the Bondholder with a bank that processes payments in Kshs, details of which appear on the register of Bondholders at the close of business on the Record Date.

Payments in respect of principal and interest are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

6.2. Payment Day

Payment instructions will be sent on the Business Day preceding the due date of payment (for value on the due date or, if that is not a Business Day, for value on the first following day which is a Business Day).

If the date for payment of any amount in respect of any Bond is not a Business Day, the holder thereof shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

6.3. Presentation of Bonds

In the case of any redemption payment or transfer of a Bond, the relevant Bondholder (and the recipient of the Bonds in the case of a transfer) or the CDSC (if and as applicable) shall be required, at least 15 (fifteen) days prior to the Payment Day or, in the case of a transfer, on the day such transfer is to take place, to surrender the Certificate evidencing such Bond (if applicable) to the Registrar at the offices of the Registrar. Such Certificate shall then be destroyed by the Registrar and the Bondholder given a new Certificate evidencing such Bondholder's revised holding (if any) in the Bonds. In the case of the Bonds being held by the CDSC, the Bondholder shall provide such documentation for the surrender or transfer of the Bond as and when required by the CDSC.

6.4. Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the Bonds shall be deemed to include, as applicable:

(a) The Instalments' amounts;

(b) The Final Redemption Amount of the Bonds;

(c) The Early Redemption Amount of the Bonds (calculated in the manner described in Condition 7.2 below);

(d) Any premium and any other amounts which may be payable by the Issuer under or in respect of the Bonds.

7. Redemption and purchase

All redemptions, purchases and sales of Bonds are required to be executed on the floor of the NSE.

7.1. Redemption in Instalments

Unless previously redeemed in full in accordance with Condition 7.2 below and subject to the provisions of Early Redemption, the Bonds will be redeemed by the Issuer in sixteen (16) equal semi-annual instalments (the **"Instalments"**), the first of such Instalment being paid on 30 April 2012 and each succeeding Instalment being paid on each Interest Payment Date up to, and including, 31 October 2019 (the "Maturity Date") (each such date being a **"Principal Repayment Date"**), subject, in each case, to the Business Day Convention.

Each Instalment will be effected through an equivalent reduction in the face value amount outstanding of each Bond.

7.2. Redemption at the Option of the Issuer

The Issuer may redeem all or part of the outstanding Bonds at par (plus any interest accrued at the date of redemption) (the **"Early Redemption Amount"**) on any Principal Repayment Date (**"Early Redemption"**) from and including the Principal Repayment Date falling on or nearest to 30 April 2012 onwards, provided that the Trustee and the Registrar shall have received from the Issuer not less than 30 (thirty) days prior written notice (which notice shall also have been given to Bondholders in accordance with Condition 15 (Notices)) specifying the amount to be redeemed and the Principal Repayment Date on which such redemption is to take place. Once given by the

Issuer in accordance with this Condition such notice shall be irrevocable and any single partial Early Redemption of the Bonds shall be of an aggregate principal amount of not less than Kshs **937,500,000**.

Each Early Redemption Amount (if the Bonds are not redeemed in full) will be effected through an equivalent reduction in the face value amount outstanding of each Bond.

The amount of each Early Redemption shall either be applied to the Instalment Amounts in inverse order of maturity of the Instalments or -pro rata against Bondholders' holdings as evidenced in the Register to be maintained by the Registrar. The exact basis of application of Early Redemption proceeds shall be advised in writing by the Issuer in the relevant Early Redemption notice.

7.3. Purchases

Subject to compliance with applicable laws and regulations, the Issuer may at any time purchase Bonds at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Bondholders alike. The purchase of Bonds shall take place through the NSE. Such Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to the Registrar for cancellation provided that any such Bonds, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 16 (Meetings). Any such purchase shall also be notified to the Capital Markets Authority and the NSE.

8. Cancellation

All Bonds which are redeemed, including any Bonds purchased for cancellation, in accordance with Condition 7 above, will forthwith be surrendered to the Registrar for cancellation. All Bonds so cancelled shall thereafter be forwarded to the Issuer and cannot be re-issued or resold.

9. Taxation

All payments of principal, interest and any premium in respect of the Bonds by the Issuer will be made with deduction for, or on account of any present or future taxes or duties of whatever nature (including withholding taxes, duties, assessments and governmental charges) imposed or levied by or on behalf of the Republic of Kenya or any political sub-division or any authority thereof or therein having power to tax. The Issuer shall not be required to pay any additional amounts to Bondholders as a result of such deductions.

10. Prescription

The Bonds will become void unless presented for payment of principal and interest within a period of 6 (six) years after the Relevant Date (as defined here below) thereof, subject to the Issuer or Registrar taking all reasonable and responsible steps to trace and advise the last recorded Bondholder as detailed in the Registrar's registration records. As used herein, the "Relevant Date" means the date on which such payment first becomes due, except that if the full amount of the moneys payable have not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 15 (Notices).

11. Events of default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7.2), together with accrued interest (if any) as provided in the Trust Deed, in any of the following events (each an **"Event of Default"**):

11.1 **Non payment:** the Issuer fails to pay any principal of or interest on any of the Bonds when due and such failure continues for a period of 15 days in either case; or

11.2 **Breach of other obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Transaction Documents which default is incapable of remedy or is not remedied within [90 days] after notice of such default shall have been given to the Issuer by the Trustee; or

11.3 **Cross-default:** (i) any other present or future indebtedness of the Issuer for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph 11.3 have occurred equals or exceeds Kshs 937.5 million or its equivalent on the basis of the middle spot rate for the relevant currency against the Kenyan Shilling as quoted by any leading bank on the day on which this paragraph operates; or

11.4 **Legal Process:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the electricity generating assets or revenues of the Issuer and is not discharged or stayed within 270 days after such levy, enforcement or suit; or

11.5 **Default of other security:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, including, for the avoidance of doubt, pursuant to the other existing borrowings, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and which is not discharged or stayed (or, as the case may be, the relevant person is not removed) within 270 days; or

11.6 **Creditor process:** the Issuer stops or suspends payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer; or

11.7 **Winding up and cessation of business:** an order is made or an effective resolution passed for the winding up or dissolution of the Issuer or the Issuer ceases or threatens to cease to carry on, or disposes of or transfers, all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders; or

11.8 **Appointment of receivers and managers:** an encumbrancer takes possession or exercises or purports to exercise any power of sale or if a receiver or liquidator is appointed by any court or by any other person over the property and assets of the Issuer; or

11.9 **Authorisation:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, (ii) to ensure that those obligations are legally binding and enforceable or (iii) to make the Bonds admissible in evidence in the courts of Kenya is not taken, fulfilled or done; or

11.10 **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Issuer so alleges; or

11.11 **Analogous events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of events referred to in any of the foregoing paragraphs.

12. Enforcement

The Bond Trustee may at its discretion and without further notice take such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by holders of at least over 50% in nominal amount of the Bonds outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails so to do within a reasonable period and such failure is continuing.

The right to declare Bonds due terminates if the situation giving cause to it has been cured or is otherwise no longer continuing before such right is exercised and any notice or demand issued by the Trustee in accordance with this Condition shall be of no effect.

13. Transfer and exchange of Bonds and replacement of Bonds

Application for the transfer of Bonds must be made by the lodgement of a transfer form with the Registrar. Transfer forms must conform with forms set out in Appendix E as approved by the NSE for the transfer of the Bonds and must be accompanied by such evidence (if any) as the Registrar may require to prove the title of the transferor or the transferor's right or authority to transfer the Bond and be duly signed by both the transferor and the transferee. If the CDS system for Bonds will not be operational, then Bonds entered in the CDSC clearing system will be transferable only in accordance with the prevailing rules and regulations of the CDSC.

Bonds may be transferred in whole or in part provided that the minimum face value of Bonds transferred corresponds to such minimum amount permissible under the relevant NSE rules and, if applicable, prevailing rules and regulations of the CDSC.

Any person becoming entitled to Bonds in consequence of the death or bankruptcy of the holder of such Bonds may upon producing such evidence to the satisfaction of the Registrar shall require to be registered with the Registrar and the NSE as the holder of such Bonds or, subject to the requirements of the Applicable Procedures and of this Condition 13, may transfer such Bonds to a third party. The Fiscal Agent shall be entitled to retain any amount payable upon the Bonds to which any person is so entitled until such person shall be registered as aforesaid or shall duly transfer the Bonds.

The joint holders of Bonds shall be entitled to one Bond Certificate only in respect of their joint holding of such Bonds which shall, except where they otherwise direct, be delivered to the joint holder whose name appears first in the Register in respect of such joint holding.

If any Bond Certificate is mutilated, defaced, stolen, destroyed or lost it may be replaced at the office of the Registrar, on payment by the claimant of such costs and expenses as may be incurred in connection therewith and such indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

The Register shall be kept at the offices of the Registrar. The Register shall contain the name, address, telephone number, email address and bank account details of the registered Bondholder. The Register shall set out the principal amount of the Bond issued to such Bondholder and shall show the date of such issue. The Register shall show the serial number of Bonds issued and shall be open for inspection during the normal business hours of the Registrar to any Bondholder or any person authorised in writing by any Bondholder. The Registrar shall not be obliged to record any transfer while the Register is closed. The Registrar shall not be bound to enter any trust into the Register or to take notice of any or to accede to any trust executed, whether expressly or implied, to which any Bond may be subject.

All transfers of Bonds and entries will be made subject to the detailed regulations concerning transfers of Bonds (the **"Applicable Procedures"**) set forth in the Agency Agreement.

A transfer to an unincorporated association is not permitted.

Private transactions shall conform to the regulations governing private transactions as stipulated by the CMA from time to time.

Schedule 1 of the Agency Agreement contains additional provisions relating to the transfer of Bonds.

14. Fiscal Agent and Registrar

14.1 Identity of Issuer, Bond Trustee, Fiscal Agent and Registrar

The names of the parties and their Specified Offices are set out below.

Party	Name of Party	Specified Office of Party
Issuer	Kenya Electricity Generating Company Limited	Stima Plaza, Plot Number L.R. 209/5964 Kolobot Road, P O Box 47936-00100, Nairobi, Kenya
Bond Trustee	Livingstone Registrars Limited	Kirungii House, Ring Road, Westlands P.O. Box 30029-00100, Nairobi, Kenya
Fiscal Agent	Standard Chartered Bank Kenya Limited	Stanbank House, Moi Avenue P.O. Box 30003-00100, Nairobi, Kenya
Registrar	Image Registrars Limited	Transnational Plaza, 8th Floor, Mama Ngina Street P.O.Box 9297-00100, Nairobi, Kenya

14.2 Termination of Appointment

The Issuer is entitled to vary or terminate the appointment of the Fiscal Agent, the Registrar and/or appoint additional or other agents and/or approve any change in the Specified Office through which any agent acts, provided that there will at all times be a Fiscal Agent and a Registrar with a Specified Office in Nairobi. Any variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Bondholders in accordance with Condition 15 (Notices).

14.3 Capacity of Agent

In acting under the Agency Agreement and in connection with the Bonds, each of the Agents is acting solely as agent of the Issuer and does not assume any obligation toward or relationship of trust for or with any Bondholder or the owner of any interest in the Bonds.

14.4 Fiscal Agent's Indemnity

The Fiscal Agent is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders. In addition, the Fiscal Agent is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

14.5 Extent of Fiscal Agent's duty

In the exercise of its powers and discretions under these Conditions, the Agency Agreement and the other Transaction Documents, the Fiscal Agent will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual Bondholders as a result of such Bondholders being connected in any way with a particular territory or taxing jurisdiction.

Provisions of the Agency Agreement

The Agency Agreement contains provisions governing the responsibility of the Fiscal Agent and providing for its indemnification in certain circumstances including provisions relieving it from taking proceedings against the Issuer and/or any other person unless indemnified and/or secured to its satisfaction.

15. Notices

15.1 Notices to the Bondholders will be deemed to be validly given if made by fax, any electronic means, delivered by hand to them, or sent by registered mail or (if posted to an overseas address) by airmail to them, and:

(a) in the case of any communication made by fax, will be deemed to have been validly given upon receipt by sender of such fax of a confirmation from the fax number recorded in the Register of Bondholders that the transmission was successful; or in case of electronic mail, at the time of transmission as long as no delivery failure notification is received by the sender.

(b) in any other case, will be deemed to have been validly given when such communication or document is left with or, as the case may be, 7 business days after its being posted to the intended recipient at its address as recorded on the Register.

15.2 The Registrar shall, upon and in accordance with the instructions of the Issuer but not otherwise, arrange for any notice which is to be given to the Bondholders to be given in accordance with this Condition.

15.3 Notices to be given by any Bondholder shall be in writing and given by lodging the same with the Bond Trustee who shall then take appropriate action in accordance with the Transaction Documents.

15.4 All notices regarding the Bonds shall also be published in an English language daily newspaper of nationwide circulation in the Republic of Kenya

16. **Meetings of bondholders, modification and waiver**

16.1. The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Bondholders holding not less than ten per cent in nominal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds (including, but not limited to, modifying the date of maturity of the Bonds or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds, modifying the majority required to pass an Extraordinary Resolution), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than seventy-five (75) per cent in nominal amount of the Bonds for the time being outstanding, or at any adjourned such meeting not less than one-third (33.3) per cent, in nominal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

16.2. At a poll, each Bondholder shall be entitled to one vote for every KShs. 1 outstanding in respect its Bond.

16.3. The Bond Trustee and the Issuer may agree, without the consent of the Bondholders to:

(a) any modification (except as mentioned above) of the Trust Deed which is not materially prejudicial to the interests of the Bondholders; or

(b) any modification of the Bonds which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Bondholders and any such modification shall be notified to the Bondholders in accordance with Condition 15 as soon as practicable thereafter. Any such modification shall also be notified to the Capital Markets Authority.

16.4. The Fiscal Agent and the Issuer may agree, without the consent of the Bondholders, to:

(a) any modification (except as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the Bondholders; or

(b) any modification of the Bonds or the Agency Agreement, which is of a formal, minor or technical nature or is made to correct a manifest error to comply with mandatory provisions of Kenyan law.

The expression "Extraordinary Resolution" when used in the Terms and Conditions means a resolution passed at a meeting of the Bondholders duly convened and held in accordance with the provisions of the Trust Deed by a majority consisting of not less than 75% of the votes cast.

17. Amendments

17.1 To cure ambiguities

The Terms and Conditions may be amended by the Issuer, and any Agency Agreement or Trust Deed may be amended by the parties to each such document without the consent of any Bondholder for the purposes of curing any ambiguity, or correcting or supplementing any defective or inconsistent provisions therein and such amendment does not adversely affect the interest of the Bondholders.

17.2 Approval by Bondholders

The Terms and Conditions and any Agency Agreement or Trust Deed may otherwise be varied by the Issuer with the approval of the Bondholders by Extraordinary Resolution. A variation will take effect in relation to all Bondholders who hold bonds on the date of any amending deed or other instrument.

18. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility incertain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified to its satisfaction.

19. Governing Law

The Trust Deed and the Bonds are governed by, and shall be construed in accordance with, the laws of the Republic of Kenya.

20. Jurisdiction and Waiver of Immunity

The Issuer agrees that any legal action or proceedings arising out of or in connection with the Bonds may be brought before any competent court in the Republic of Kenya and irrevocably submits to the jurisdiction of each such court. Service of any writ, judgement or other notice of legal process shall be received by being served on the offices of the Company Secretary of the Issuer in Nairobi, at KenGen's offices or at such other address advised by the Issuer.

Nothing in this Condition 20 shall affect the right of any Bondholder to serve any writ, judgement or other notice of legal process in any manner permitted by applicable law and the Issuer hereby consents to service being effected in any such manner, whether by mail or otherwise.

The submission to said jurisdiction shall not (and shall not be construed so as to) limit the rights of any Bondholder to take proceedings against the Issuer in whatsoever jurisdictions they shall deem fit nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other competent jurisdiction whether concurrently or not.

To the extent that the Issuer may in any jurisdiction in which proceedings may be taken for the enforcement of the Bonds be entitled at present or at any time in the future to claim immunity for itself or any of its assets, the Issuer irrevocably undertakes not to claim and irrevocably agrees that all its assets (whatever the purpose for which those assets are used) are and shall be subject to service of process, jurisdiction, suit, judgement, set-off, counterclaim, enforcement of or execution of a judgement, attachment (whether before judgement or in aid of execution) and all other legal processes, including without limitation the giving of relief, on account of the indebtedness and other obligations incurred by it pursuant to the Bonds.

4 Use of proceeds

The Issuer intends to use the net proceeds from the issue of Bonds for the expansion of its electricity generating assets.

KenGen proposes to increase its generation capacity by 528.6 Megawatts (MW) within the next four years (1 July 2009 to 30 June 2013) and 1,635 Megawatts between 1 July 2013 and 30 June 2019. Therefore, this will result in an expansion of the Company's electricity generation by 2,163.6 MW within nine years. The projects being implemented and commissioned within four years to 30 June 2013 are categorised as Horizon 1 Projects while those being commissioned from this date upto 2019 are referred to as the Horizon 2 Projects.

KenGen's investment (excluding interest incurred during the construction phase) under both Horizon 1 and 2 is estimated at **US$ 7.15 billion (Kshs 572 billion)** (see table 1 below) of which the Horizon 1 and 2 expenditures are put at **US$ 1.68 billion (Kshs 134 billion)** and **US$ 5.47 billion (Kshs 438 billion),** respectively. The Horizon 1 Projects' costs include an amount of **US$ 167.1 million (Kshs 14 billion)** in respect of six Rigs needed for implementation of the geothermal Projects being rolled out under Horizon 2 Projects. With the exception of the Rigs, the Horizon 1 expenditures comprise of power generating Projects which will be completed and commissioned by 30 June 2013, while Horizon 2 Projects consists of Projects that will be completed between 1 July 2013 and 30 June 2019. It should be noted that some of the Horizon 2 Projects will be commenced as early as 2009.

Part of the Horizon 1 Projects have been funded to the extent of US$ 161.5 million (Kshs 13 billion). The proceeds from the Bonds will be applied towards the costs of the Horizon 1 Projects which are summarised below.

Table 1: Sectrol contribution to GDP growth

HORIZON 1 PROJECTS				
All figures in USD Million	**Capacity** (MW)	**Total project Cost** Funding	**Funded/committed**	**Balance to be** funded
Hydros	86.0	188.4	54.6	133.8
Geothermal	317.5	1,103.0	91.8	1,011.2
Thermal	120.0	200.0	0.0	200.0
Wind	5.1	18.9	15.1	3.8
Sub-Total	**528.6**	**1,510.3**	**161.5**	**1,348.8**
RIGS	N/A	167.1	-	167.1
Total – Horizon I Projects	**528.6**	**1,677.4***	**161.5**	**1,515.9**

Note*: the project costs above exclude interest capitalised during construction calculated at US$ 231.9 million.

The Investment plan given above assumes that:

- all permissions and approvals will be granted,
- the necessary funding will be put in place;
- KenGen will negotiate commercially acceptable tariffs through forward PPAs as a basis of obtaining funding;
- adequate resources will be in place to assist in the implementation of the projects; and
- KPLC's investment in transmission and distribution will be harmonised with KenGen's capacity expansion plan.

4.1 Horizon 1 Projects, overall costs and implementation timetable

These are twelve projects comprising of five hydros, five geothermals, one thermal and one wind. The five hydro projects with a capacity of 86 MW, comprise of one new project (Sangoro) while the other four are capacity optimisation projects. The five geothermal projects are projected to have a capacity of about 317.5MW. The thermal will have a capacity of 120MW, while the wind project has added 5.1 MW. The salient details of each project are summarised in the table below.

Table 2: Detailed assumptions of Horizon 1 Projects

	Project Type	Status	Expected Commission Date	Capacity MW	Useful Life Years	Base investment USD million	Financing costs USD million	Total investment investment
	Hydro							
1	Kiambere optimisation	Ongoing	Sept 2009	20	50	14.3	1.4	15.7
2	Tana Development	Ongoing	April 2010	20	50	44.9	1.8	46.7
3	Raising of Masinga Dam	Design	April 2012	Note*	50	14.4	0.3	14.7
4	Kindaruma 3rd Unit	Procurement	May 2011	25	50	36.7	9.2	45.9
5	Sangoro	Ongoing	Nov 2011	21	50	78.0	5.6	83.6
	Sub-Total	**N/A**		**86**	**N/A**	**188.3**	**18.3**	**206.6**
	Geothermal							
1	Olkaria II 3rd Unit	Ongoing	May 2010	35.0	25	142.4	16.9	159.3
2	Eburu 2.5 MW	Ongoing	Jan 2011	2.5	25	9.4	0.9	10.3
3	Olkaria IV – New	Feasibility	Jan 2013	140	25	458.6	92.5	551.1
4	Olkaria I – New Plant	Feasibility	Jan 2013	70	25	269.0	37.1	306.1
5	Olkaria I Life Extension	Feasibility	Jan 2013	70	25	223.7	34.2	257.9
	Sub-Total			**317.5**	**N/A**	**1,103.1**	**181.6**	**1,284.7**
	Thermal							
1	Thermal Plant – 120MW	Procurement	Dec 2010	120	20	200.0	31.5	231.5
	Sub-Total			**120**		**200.0**	**31.5**	**231.5**
	Wind							
1	Ngong wind	Completed	Aug 2009	5.1	25	18.9	0.5	19.4
	Sub-Total			**5.1**	**25**	**18.9**	**0.5**	**19.4**
	6 Rigs					**167.1**	**-**	**167.1**
	Total	**N/A**		**528.6**		**1,677.4**	**231.9**	**1,909.3**

*Note * this will not result in capacity expansion although it is estimated that this investment will increase output by 90Gwh per year.*

The financing status of these projects is summarised below.

Hydros: Sangoro has been financed to the tune of 75%. KenGen would like to raise financing for the 25% component. KFW has committed to fund Euro 30 million towards the Kindaruma 3rd Unit. The other three hydro power plants do not have any funding yet.

Geothermal: Olkaria II 3rd Unit has been financed 65% by EIB, IDA and AFD contributing 27%, 18% and 19%, respectively. Eburu has not been funded. The feasibility studies for Olkaria IV New Plant, Olkaria I New Plant and Olkaria I Life Extension have been completed but the Environmental Impact and Social Assessment Studies for the concerned projects are yet to be completed. KenGen plans to have the Environmental Impact and Social Assessment Studies completed in 2009..

Thermal: the tendering process for the 120MW thermal project has been commenced.

Wind: the project has been funded 80% by KBC. KenGen intends to refinance the balance of 20% through debt.

4.2 Coal Power Plant 600MW

KenGen has received approvals to procure a Joint Venture Partner ("JV Partner") and then enter into a Joint Venture (JV) with the concerned JV Partner for purposes of designing, financing, erecting, commissioning, and operating a 600MW Coal Power Plant under a Power Purchase Agreement. Under the arrangement, KenGen will own between 40% and 49% of the joint venture's special purpose vehicle (SPV) with the balance being taken by the JV Partner.

The power plant will be located in Mombasa (coastal area of Kenya adjacent to the Indian Ocean), in Kenya. Coal will be supplied by ocean going vessels to a new jetty facility that would be built at Dongo Kundu Port and transferred to the power plant site by an overland conveyor constructed to carry coal to the power plant from an offshore unloading facility that is to be developed in deep water in Dongo Kundu Port. Power will be evacuated from the station via a new 57km 400 kV transmission line which will run around the southern end of Bombo Creek to a new substation and connection to the grid at Mariakani.

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

The SPV will become the signatory to a Power Purchase Agreement (PPA) obliging it to design, finance, supply, erect, commission, operate and maintain the plant and to sell the electricity generated by the power plant to KPLC or its successor, and to transfer the plant to KenGen at the end of the term of the PPA. The PPA will be for a duration of 25 years from the "Long Stop Full Commercial Operation Date" of the plant. The Plant is expected to be fully operational within 46 months from the date of signing the PPA. The PPA is expected to be signed by March 2010. It is expected that financial closing will be reached between 30 June and 30 September 2010. The Joint Venture might also obtain a 30 year concession, on a BOOT (Build Own Operate and Transfer) basis, for the port landing facility.

4.3 Proceeds from the Bond

The proceeds from the Bond will be applied towards the financing of all the above projects with the exception of the Rigs.

5 The Kenyan economy

The economic forecasts have been prepared on the basis of certain assumptions with respect to the general economy. Actual economic indicators may vary materially from those projected since they are subject to rapid change and cannot be relied on exclusively. No representation is made or intended, nor should any be inferred, with respect to the likely existence of any particular set of facts or circumstances.

5.1 Overview

The period since 2002 has witnessed an improvement in the economic condition of Kenya which has been reflected in improved figures for economic growth, with the Central Bank of Kenya estimating economic growth of 5.7%, 6.4% and 7% respectively in 2005, 2006 and 2007. However, this track record reversed in 2008 with a growth of 1.7%attributed to the post election violence, drought, high fuel prices and the global financial crisis. Kenya continues to be the primary communication and financial hub of East Africa. It enjoys the region's best transportation linkages, communications infrastructure, and trained personnel, although these advantages are less prominent than in past years. A wide range of foreign firms maintain regional branch or representative offices in the city. In March 1996, the Presidents of Kenya, Tanzania, and Uganda re-established the East African Cooperation (EAC). The EAC's objectives include harmonizing tariffs and customs regimes, free movement of people, and improving regional infrastructures. In March 2004, the three East African countries signed a Customs Union Agreement.

According to the Central Bank of Kenya statistics, the Kenyan economy grew by 7% in 2007 compared with 6.4% in 2006, despite the high cost of production caused by high and volatile international crude oil prices and the strong shilling that affected export earnings. Appropriate fiscal and monetary policies pursued during theyear,however,resulted in stable macroeconomic conditions, and therefore a favourable environment for investment.

The economy is likely to be negatively affected by the on-going world recession, as remittances from theKenyandiaspora fall, and demand for Kenyan exports (principally agricultural and horticultural) declines.

The sectoral contribution to GDP growth is shown in the table below.

Table 3: Sectrol contribution to GDP growth

	Share in Real GDP in 2008 (%)	2008	2007	2006	2005	2004
Agriculture, forestry & fishing	23.8	(2)	7.4	2.60	8.80	1.70
Mining & Quarrying	0.7	3.2	12.90	4.10	2.70	(0.40)
Manufacturing	10.6	3.8	6.50	6.30	4.70	4.50
Electricity & water supply	1.5	5.2	9.10	(1.40)	(0.10)	3.00
Wholesale & retail trade, repairs	10.0	5.1	11.50	11.60	5.60	8.50
Hotels & restaurants	1.1	(36.1)	16.30	14.90	13.30	38.80
Buildings & constructions	3.8	8.3	6.90	6.30	7.50	4.40
Transport & communications	10.2	3.1	15.1	11.40	9.00	7.00
Financial intermediation	4.7	3.1	6.70	4.80	5.60	1.40

	Share in Real GDP in 2008 (%)	2008	2007	2006	2005	2004
Real estate, renting & business services	5.1	3.7	3.50	3.90	3.40	3.00
Public administration & defence	5.0	0.6	(2.00)	(1.60)	(1.30)	0.20
Education	6.3	5.8	3.70	0.30	0.70	2.00
Health & social work	2.4	3.6	3.20	3.30	3.20	3.80
Other community, social & personal services	3.4	3.0	3.40	4.30	3.00	3.70
Private households with employed persons	0.4	2.00	2.00	2.00	2.00	2.00
Less: Financial services indirectly measured	(0.9)	(0.75)	2.70	5.10	4.30	4.70
Total GDP at basic 2001 prices	**88.2**	**0.9**	**6.20**	**5.60**	**5.20**	**3.90**
Taxes less subsidies on products	11.8	6.7	13.40	11.20	11.00	14.80
Real GDP at 2001 market price	**100.0**	**1.7**	**7.00**	**6.40**	**5.80**	**5.10**

Source: Kenya National Bureau of Statistics (Economic Survey 2009)

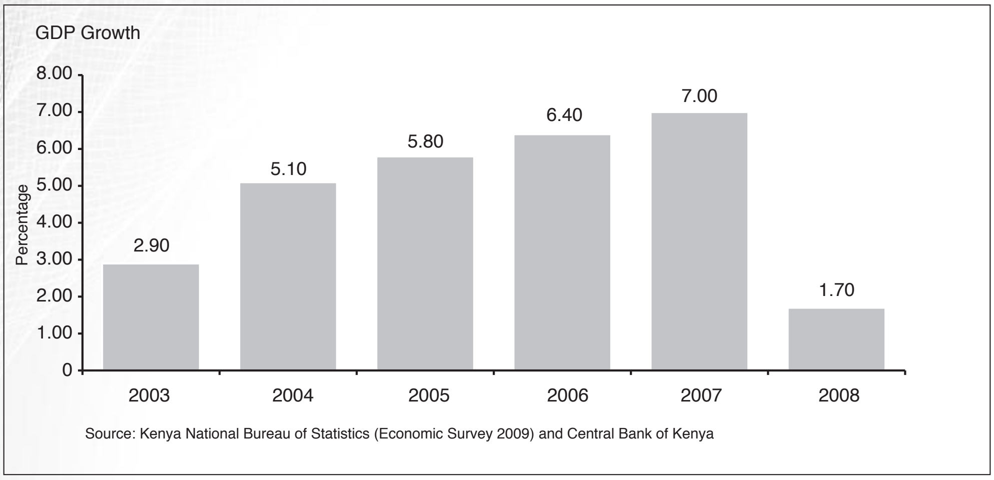
The major sectors grew as follows:

- **Agriculture:** the sector growth decelerated from 2.2% in 2007 to a negative growth of 5.4% in 2008, due to reduced production of food crops directly as a result of drought and post election violence. The maize production declined by 20%, wheat production declined by 23.6%, coffee production declined by 21.3% and production of tea and milk declined by 6.4% each. Horticultural output increased marginally in 2008 but the first quarter of 2009 recorded a 9% decline in horticulture export. Coffee production and sugarcane production increased by 55.1% and 20.9% in comparison to the same period in the prior year but tea exports declined by 7%.
- **Manufacturing:** manufacturing grew by 3.8% in 2008 (the lowest growth in five years) compared to a growth of 6.5% in 2007. This resulted from low levels of productivity and the high cost of production aggravated by the effects of post-election crisis, high inflationary pressures, depreciation of the Kenya Shilling, counterfeits and competition from cheap imports. The sector output increased by 14.5%. The first quarter of 2009 recorded increased sugarcane production and beer output of 18.7% and 26.7% respectively and a decline in cigarette production and soda ash production by 14.9% and 47.8%, respectively.
- **Building and construction:** the sector grew by over 8.3% in 2008 due to increased capital investment in roads, housing and the expansion of Jomo Kenyatta International Airport. The cement consumption first quarter of 2009 was higher than the same period in 2008 by 25%.
- **Transport and communication:** the sector grew by 3.1% in 2008 underpinned by an increase in motor vehicles and the foreign direct investment in the telecommunication sector.
- **Tourism:** this sector declined by 36.1% in 2008 due to the post election violence that saw tourist arrivals reduce by 33.8% in 2008 (tourism earnings reduction by 19.2%) compared to 2007. In the first quarter of 2009 tourist arrivals from Europe, Americas and Asia increased by 119.7%, 58.6% and 33% respectively over the same period in 2008.

5.2 Macroeconomic indicators

The country's economic performance was robust in 2007 with the real GDP growth estimated at 7% compared to 6.4% in 2006. GDP growth was mainly supported by improved performance in agriculture, tourism, building and construction, manufacturing, financial services, transport and communication and household consumption. Stable interest and exchange rates provided the conducive environment with increased access to credit and remittances from abroad. In 2008, the economic growth declined by 1.7% mainly due to the post election violence, global financial crisis, high fuel prices and drought that afflicted various parts of the country. Although the Ministry of Finance prospects better economic growth rates in 2009, the global recession and failure of rains in 2009 could significantly constrain growth. The chart below shows the GDP growth rate between 2003 and 2008.

Figure 1: GDP growth rate: 2003 - 2008

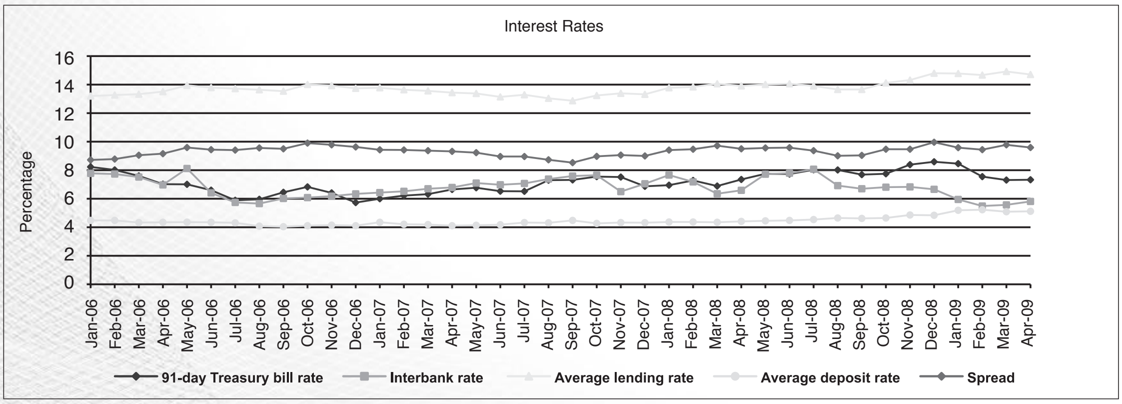


The projected GDP growth for 2009 has been estimated by certain opinions at 3%.

5.2.1 Interest Rates

Despite the turmoil experienced in the country following the December 2007 elections, interest rates remained stable in line with the CBK's policy of maintaining stability in the general level of prices. The Central Bank Rate (CBR) has been maintained at 7.75%, giving CBK adequate room to continue with tight monetary policy. Interest rate trends are as shown in the figure below. The average 91-day Treasury bill rate rose from 7.31 percent in March 2009 to 7.26 percent in August 2009 while the 182-day Treasury bill rate also increased from 7.9% in March 2009 to 8.30% in April 2009. Interest rate trends are as shown in the figure below.

Figure 2: Interest rate trends



Source: Central Bank of Kenya

5.2.2 Exchange Rates

The Kenya shilling has been depreciating against major currencies due to increased demand for foreign currencies partly fuelled by repatriation of the Safaricom IPO refunds, falling remittances from the diaspora, and high international commodity prices. The shilling has thus weakened against the US dollar to exchange at Kshs 79.63 per US dollar in April 2009 compared with Kshs 62.3 per US dollar in April 2008. However, the shilling has since appreciated to Kshs 76.5 in August 2009.

5.2.3 Inflation

Overall 12 month inflation increased from 25.8% as at March 2009 to 26.07% in April 2009, mainly as a result of increase in food prices in particular maize, rice and beans. The inflation at June 2009 increased to 31.5%. These inflation levels have been fuelled by drought and poor harvest of the previous crop. Crude oil prices also hit a record high in August 2008, adversely affecting the developments on the domestic economy, although recently retail prices of fuel have been falling, as crude oil prices have reversed their previous rising trend.

6 Electricity sector overview

The electricity sector, economic and other data included herein, including information relating to the Issuer and its competitors' relative positions in the electricity sector, is based on industry publications, published sources or other publicly available information or the good faith belief of the Issuer's management. Although the Issuer believes that such sources are reliable, the accuracy and completeness of such information are not guaranteed and have not been independently verified by the Issuer or the Financial Advisor, Arranger, Sponsoring Broker or the Bond Participants.

6.1 Key Industry Players

The key oversight agencies in the power sub-sector of Kenya are the Ministry of Energy and the Energy Regulatory Commission.

The Ministry of Energy (MOE) is in charge of making and articulating energy policies to create an enabling environment for efficient operation and growth of the power sector, overseeing implementation of the rural electrification program and facilitating the mobilisation of resources for investment in the sector.

The Energy Regulatory Commission (ERC) was established under Section 4 of the Energy Act as a body corporate and as a successor to the Electricity Regulatory Board (ERB). It is responsible for regulation of the power sub-sector. ERB was established in 1998 under the Electric Power Act of 1997 (replaced by the Energy Act of 2006). As the successor to the ERB, the ERC has the mandate to set, review and adjust retail tariffs, approve power purchase agreements, promote competition in the sub-sector, resolve consumer complaints and enforce environmental, health, safety regulations.

The Kenya Electricity Generating Company (KenGen) is public company that is listed on the Nairobi Stock Exchange, whose main shareholder is the Government of Kenya with a 70% shareholding. KenGen is the national electricity generator with a total installed capacity of 1,008.8 MW. Therefore KenGen generates about 75% of Kenya's electricity requirements.

The Independent Power Producers (IPPs): these comprise of Iberafrica, Tsavo OrPower and Mumias Sugar Co. Ltd. These producers contribute less than 20% of the effective generating capacity to the national grid as follows;

- Iberafrica -Thermal power plant 56 MW (increasing by 52 MW to 108MW)
- OrPower4 - Geothermal power plant 48 MW
- Tsavo - Thermal power plant 74 MW
- Mumias Sugar Co. Ltd. – Cogeneration plant 2 MW (increasing by 23MW to 25MW)

A new IPP, the Rabai thermal power plant was licensed in 2008 and will install an additional 90MW of diesel power. It is also expected that additional IPPs will be licensed in the near future.

The Kenya Power and Lighting Company (KPLC) is a public company that is listed on the Nairobi Stock Exchange. It is responsible for all existing electricity transmission and distribution systems in Kenya. The transmission system comprises 220kV, 132kV and 66kV transmission lines. The system load is concentrated in Nairobi and Mombasa, extends to the Ugandan border and continues to Nalubaale hydro power station in Uganda. Between July 2006 and 30 June 2008, KPLC had a management contract with Manitoba Hydro. Since the end of the management agreement KPLC is now being managed by personnel recruited by its Board of Directors. In the past, KPLC had been contracted by the MOE to implement the Rural Electrification Program (REP) but since the establishment of the Rural Electrification Authority (REA) by the Energy Act 2006, KPLC no longer implements the REP. As part of its performance target agreement with the Government of Kenya (GoK), KPLC is required to connect 200,000 new customers every year and reduce the number of outages to below 3,000 per month. KPLC is addressing pending connections and progressing distribution reinforcements to minimize the outages. The annual demand growth is estimated at 150 MW.

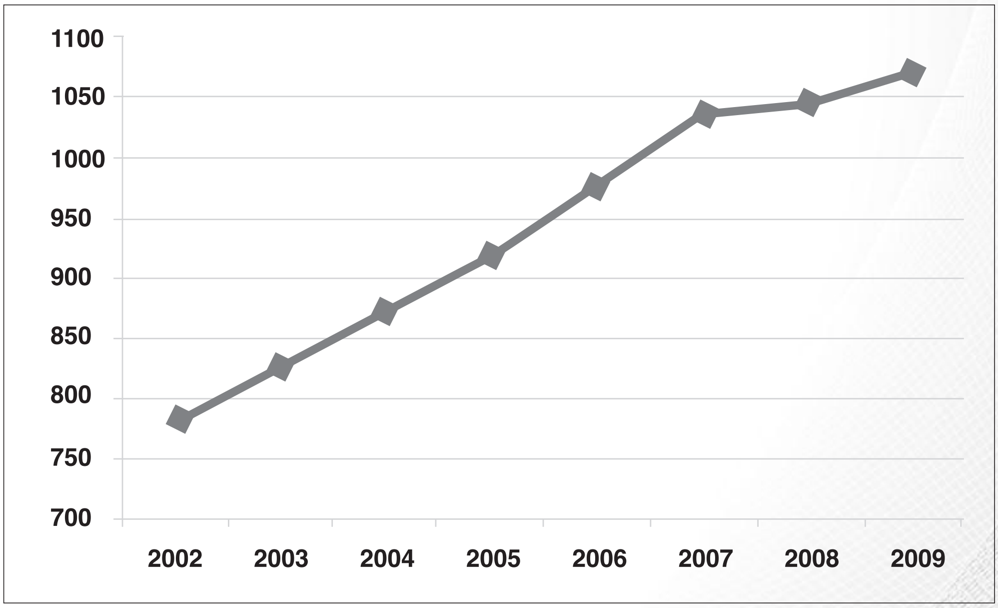
Other Power Sub-Sector Entities (Geothermal Development Company and Kenya Transmission Company Limited): GOK early this year created the Geothermal Development Company (GDC) and Kenya Transmission Company Limited (KETRACO). The former is mandated to explore, appraise and undertake steam production, while the latter will develop new national transmission networks.

6.2 Power Demand in Kenya

The total energy sold to KPLC increased by 8% from 5,697 GWh in 2006 to 6,169 GWh in 2007 and by 4% from 2007 to 2008, that is, to 6,385 GWh in 2008. KPLC's sales increased by 3% in 2008 over 2007, and by 8.7% in 2007 over 2006. As of December 2008, KenGen's installed capacity accounted for more than 85% of the country's total installed capacity.

The recorded total consumption in 2008 was 5,322 GWh compared to 5,065 GWh in 2007 and 4,580 GWh in 2006. The peak demand increased from 920 MW in 2006 to 987 MW in 2007 and then rose to 1,044 MW in 2008. Currently, the maximum peak demand is 1,053 MW based on data recorded in August 2008 which included 6MW exported to Uganda. The graph below shows the country's peak electricity demand between July 2003 and June 2009.

Figure 3: Kenya peak electricity demand



Source: LCPDP 2009 – 2029

6.3 System Installed Capacity

The current national installed interconnected capacity is 1,357 MW which will increase to 1,432 MW once the additional capacity from Mumias Sugar Company of 23 MW and IberAfrica of 52MW have been commissioned. The table below gives a summary of the installed and effective generation capacity including the Government's off-grid power stations from 2003 up to 2009. The transmission capacity as of June 2008 consisted of 1,323 km of 220 kV and 2,085 km of 132 kV lines, and the distribution system comprised 632 km of 66 kV, 29 km of 40 kV, 12,633 km of 33 kV and 23,573 km of 11 kV lines. An analysis of electricity generation by source is as follows:

Table 4: Analysis of electricity generation by source

Year	Hydro	Thermal oil	Geothermal	Cogeneration	TOTAL
2003	677.2	407.0	58	0	1,142.2
2004	677.3	392.8	128	0	1,198.1
2005	677.3	351.3	128	0	1,156.6
2006	677.3	369.8	128	2	1,177.1
2007	677.3	389.3	128	2	1,196.6
2008	737.30	445	159	2	1341.3*
2009	747.3	*497	163	*25	1,432

Source: 2008 Economic Survey & KenGen Annual Report 2008 updated by management to 2009
**Note: does not include the 0.4MW wind generation*
***Note: Under thermal generation the capacity includes an additional 52 MW from IberAfrica, while under Cogeneration the capacity includes an additional 23MW from Mumias. Both projects are currently being tested to permit commissioning of the generation.*

The increase in installed capacity in 2008 is attributed to an increase in thermal generation capacity by an emergency power producer (EPP). Geothermal installed capacity which had remained static since 2004 increased by 35 MW in 2008 and 2009. Hydro power increased in 2008 by 60MW following the completion of the Sondu Miriu power project.

We set out below the installed and effective capacities by major electricity producers as at 30 June 2008:

Table 5: Analysis by power producer

Source	2008 Installed	2008 Effective
KenGen – Hydro	737.3	719.0
KenGen – Thermal	154.0	135.0
KenGen – Geothermal	115.0	115.0
IPPs (thermal including geothermal)	176.0	174.0
Aggreko/EPPs	150.0	146.0
Imports	0.0	0.0
Off grid thermal stations	9.0	7.9
Total	**1341.3**	**1,296.9**

Source: KenGen Annual Report 2008 adjusted additional installed capacity for OrPower 31MW.

The effective output is the maximum output from the station under normal operating conditions.

The effective capacity of the interconnected system as at 30 June 2008 was 1,296.9 MW. KPLC purchases about 80% of the total electric power from KenGen and about 20% from IPPs under individual power purchase agreements (PPAs). KPLC is also entitled to import around 30 MW of non-firm power from Uganda under an agreement with the Uganda Electricity Transmission Company Limited (UETCL). Mumias Sugar Company is the only local co-generator supplying the grid from its sugar factory in Western Kenya.

6.4 Electrification connection rates

With only 18 per cent of its population having access to electric power, Kenya stands among countries with the lowest access rates in the world below those of other developing countries such as Ecuador and Jamaica where rates stand at 37 per cent and 46 per cent respectively.

6.5 Competitor analysis

In 1996, the GoK officially liberalized power generation as part of the power sector reform efforts. It became government policy that all bids for generation facilities would be put out for competition, open to both public and private firms. The first IPP developments occurred on the heels of the 1996 legislation opening up the generation sector to private investment. At the time, there was an increase in power demand, hydrological conditions were becoming unfavourable and public funds to build power plants were insufficient and the sector was dominated by hydropower. All economically viable hydro sites had, however, been largely exploited and diversification became necessary both for drought mitigation and to meet growing demand. Kenya has developed five IPPs, which will have a combined capacity of 339 MW once Mumias and IberAfrica additional capacity including the Rabai new plant have been commissioned, as detailed in the table below.

Table 6: IPP generation capacity

Project	Size MW	Fuel	Contract type
Iber Africa	102	Medium Speed Diesel, Burns HFO	BOO
Tsavo	74	Medium Speed Diesel, Burns HFO	BOO
Or Power	48	Geothermal	BOO
Rabai Diesel	90	Diesel	BOO
Mumias	25	Cogeneration	BOO
Total	339		

Source: KPLC annual report and African Energy Forum 2007

The capacity charge is payable if the IPP achieves the contracted availability factor. Otherwise the payment is prorated according to the terms of each of the IPP contracts.

7 Regulation

7.1 Legal framework

The principal law governing the power sub-sector in Kenya is the Energy Act of 2006. This Act supports private sector participation in the power sub-sector and provides for the establishment of a regulatory authority, the ERC. In October 2004, the Ministry of Energy (MOE) outlined the National Energy Policy in the Sessional Paper No. 4 of 2004 on Energy. Key elements of the National Energy Policy include:

- the establishment of a single independent energy regulator with adequate mandate to regulate all sector entities;
- the establishment of the REA to take over rural electrification functions from the MOE;
- the establishment of a state owned Geothermal Development Company (GDC) to be in charge of geothermal resource assessments and sell steam to power generation companies;
- privatisation of KenGen over time starting with an initial public offering (IPO) of 30% of its equity through the Nairobi Stock Exchange;
- direct sale of bulk power from power generation companies to bulk consumers, via the transmission network;
- transfer of rural electrification assets to licensed distributors;
- privatisation or concessioning of isolated power stations;
- unbundling of KPLC into a state owned transmission company and a private sector owned distribution company; and
- creation of a domestic power pool with a provision for wholesale and retail markets.

The Energy Act covers other energy sources including petroleum, natural gas and electricity and establishes a single independent energy regulator, the ERC. The objectives of the ERC are:

(a) regulate:

- Importation, exportation, generation, transmission, distribution, supply and use of electrical energy;
- Importation, exportation, transportation, refining, storage and sale of petroleum and petroleum products;
- Production, distribution, supply and use of renewable and other forms of energy;

b) protect the interest of consumer, investor and other stakeholder interest.

(c) maintain a list of accredited energy auditors as may be prescribed;

(d) monitor and ensure implementation of, and observance of the principles of fair competition with other statutory authorities;

(e) provide such information and statistics to the Minister of Energy as his Office may from time to time require;

(f) collect and maintain energy data;

(g) prepare an indicative national energy plan; and

(h) perform any other function that is incidental or a consequential to its function under the Act.

All contracts for sale of electrical energy, transmission or distribution services, between and among licensees, and between licensees and large retail consumers must be submitted to the ERC for approval before execution.

7.2 The Power Purchase Agreements

On the 4th of June 2009, KenGen and KPLC executed the following PPAs, which have been approved by ERC as required under Section 6 (j) and 43 of the Energy Act 2006 :-

- Power Purchase Agreement for Hydro Power Generating Plants
- Power Purchase agreement for Olkaria I and II
- Power Purchase Agreement for Kipevu Diesel Power Generating Plant
- Power Purchase Agreement for Kipevu Gas Turbine Power Generating Plant
- Power Purchase Agreement for Isolated Thermal and Small Hydro and Wind Power generating Plants

Foreign Exchange Costs under the PPAs

Each of the above Power Purchase Agreements ("PPAs") contain an identical provision that "KPLC shall pay KenGen Forex Adjustment Payments ascertained in accordance with Part C/B of Schedule 4 " of the PPA.

Each of the PPAs further defines "Forex Adjustment Payments as" a payment to be made to or recovered from KenGen in accordance with the terms of (the Agreement) in relation to foreign exchange losses incurred or gains realized by KenGen each month as a result of fluctuations in foreign exchange rates relative to the base value of the Kenya Shillings Foreign Currencies shown in Part C/B of Schedule4 in payments of its foreign denominated costs in the process of performing its obligations under the (PPAs)".

Each of the PPA's refers a "Pass Through Costs Facility" defined "as the mechanism comprising...... the foreign exchange fluctuations adjustment formula..... approved by the ERC as part of the KPLC Retail Tariffs for automatic adjustment and pass through to electricity consumers as part of KenGen's escalable components of ....Forex Adjustment Payments." The Term the KPLC Retail Tariffs includes the Pass through Costs Facility charged by KPLC to consumers.

Therefore, based on the PPAs, KenGen is legally entitled to recover from and obliged to reimburse to KPLC Forex Adjustment Payments representing the net foreign exchange losses incurred or gains realized in respect of its foreign denominated costs in the process of performing its obligations under each of the PPAs.

8 Description of the Issuer and business activities

8.1 History and background

Kenya Electricity Generating Company Limited was incorporated on 1 February 1954 under the Companies Act (Cap 486) of the Laws of Kenya as a private limited company (registration number C20/55) in the name of Kenya Power Company Limited. It was converted into a public company with limited liability pursuant to a special resolution passed on 27 July 1955. Subsequently, on 19 January 1998 the company changed its name to Kenya Electricity Generating Company Limited, following the reforms implemented by GoK in the energy sector.

The Company uses the trade name "KenGen", which is duly registered as a business name under the Registration of Business Names Act (Cap 499) under Number 282893.

Prior to the initial public offering, the Company was 100% owned by the GoK. The GoK sold 30% of its share capital in the Company through an IPO in May 2006. Following the IPO, KenGen successfully listed its entire issued share capital on the NSE on 17 May 2006. .

8.2 Core business

The Company's core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The Company is the leading electric power producer in Kenya accounting for over 80% of the total electric power consumed in the country.

8.3 Legal framework

KenGen is incorporated under the Companies Act. In addition, KenGen has to comply with the following principal laws that affect its operations:

- State Corporations Act (Cap.446 of the Laws of Kenya) that defines "a company incorporated under the Companies Act owned or controlled by GoK or a State Corporation" as a State Corporation – KenGen is deemed to remain a State Corporation and is subject to the provisions of this Act.

  By virtue of Legal Notice No 23 dated 7th March 1997, the President of the Republic of Kenya exempted KenGen from the provisions of the State Corporations Act to facilitate operational autonomy in the liberalised business environment. However, in June 2002, the Act was amended and the full exemption was in effect revoked. Thus, KenGen continues to be subject to Section 5, 10A, 11, 13, 14, 18 to 29 of the State Corporations Act. These provisions relate to the following:

  - Section 5: This section provides for control of certain powers of a state corporation by the Minister responsible for the state corporation (i.e. Minister of Energy) and the Treasury.
  - Section 5(2) provides that the power of a state corporation to borrow money in Kenya or elsewhere shall be exercised only with the consent of the Minister responsible for the state corporation and subject to such limitations and conditions as may be imposed by the Treasury.
  - Section 5(3) provides that a state corporation may employ such number of staff on such terms and conditions of service as the Minister may approve.
  - Section 5(4) provides that a state corporation requires the Minister's approval for purposes of establishing pension, gratuity, provident or other funds for the state corporation's employees and dependants.
  - Sections 11: This provision requires KenGen to prepare and submit to the Minister for Energy and the Treasury for approval, not later than the end of February in every year, estimates of KenGen's revenue and expenditure for the following financial year. The estimates are to include proposals for the funding of all projects to be undertaken by KenGen or the implementation of which will continue during the financial year. The section further provides that no annual estimates and proposals for funding projects shall be implemented until they have been approved by the Minister for Energy with the concurrence of the Treasury.
  - Section 13: This provision requires a state corporation to obtain the approval of the Minister responsible for the state corporation and the Treasury before disposing of the assets of the corporation by way of sale or otherwise where such disposal has not been taken into account in the estimates mentioned in Section 11.
  - Section 14: Section 14(3) requires that the accounts of every state corporation be audited and reported annually in accordance with the Public Audit Act, 2003. While the Companies Act requires that the shareholders appoint a person duly qualified under the Accountants Act as an auditor for a company.

- Sections 18 to 29: These provisions provide for the powers of the Inspector-General Corporations to inspect and investigate a state corporation and proceedings arising therefrom.

- The Energy Act 2006
- The Capital Markets Act
- The Companies Act.
- Environmental Management Coordination Act
- Geothermal Resources Act
- Water Act.

8.4 Company vision

KenGen's envision is to be 'the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region.'

The Company endeavours to attain its vision by adding 2,000MW by 2018 through least cost renewable capacity expansion to meet the national growing power demand.

8.5 Company mission

KenGen's mission is to 'efficiently generate competitively priced electrical energy using state of the art technology, skilled and motivated human resource to ensure financial success. The Company aims at maintaining market leadership by undertaking least cost, environmentally friendly, capacity expansion. Consistent with corporate culture, the core values will be adhered to in all KenGen's operations.

The Company is committed to efficient power generation with least effects on the environment to ensure sustainability of operations. This is anchored by its ISO Quality Management System and the Environmental Management System. The human resource is at the core of the mission attainment, and the Company has an elaborate Training and Development Policy.

8.6 Core values

To achieve its Mission, the core values inform the decision making in the Company. These values are:

- **Integrity.** Ascribing in totality to honesty, transparency and accountability.
- **Professionalism.** Striving to attain the highest professional standards in everything we do and embrace state-of-the-art technology.
- **Team Spirit.** Seeking to pursue teamwork as a means of building understanding and co-operation in our internal and external relationships.
- **Safety Culture.** Striving to create a safe working environment and to uphold environmentally friendly practices so as to have positive and healthy impacts in all our endeavours.

8.7 Strategy and Prospects

With support from consulting group McKinsey, KenGen has developed a Good-to-Great (G2G) strategy. The strategy is anchored by two themes. The first theme is focusing on moving KenGen from a "Good" Company to a "Great" Company that focuses on delivering value to its stakeholders. The other theme arising from G2G is that the Company focuses on achieving sustainability in value creation from "One Generation" of Kenyans to the "Next Generation" of Kenyans.

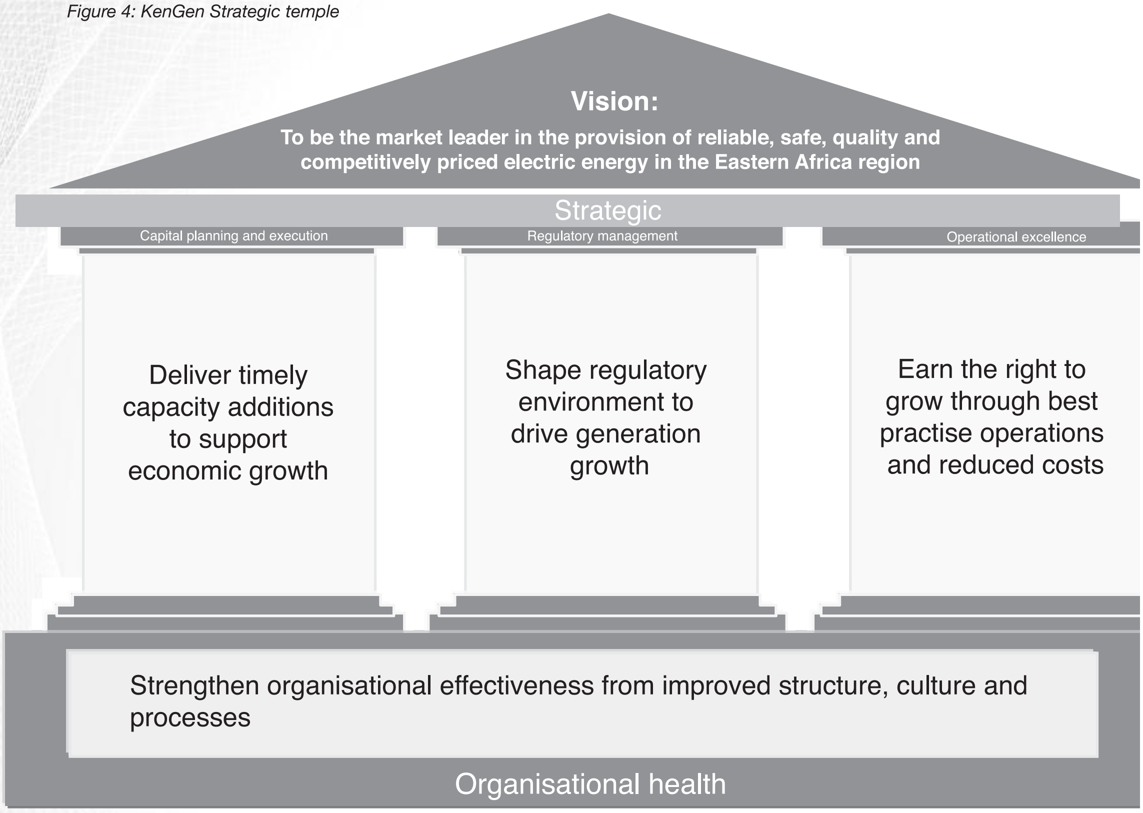
8.8 KenGen's strategic pillars

To triple its capacity over the next ten years, KenGen is focusing on three key strategic pillars supported by a strong organization as follows:

- Capital Planning and Execution: value will be derived through geothermal expansion and development of clean energy sources.
- Regulatory Management: this involves deriving value through influence and lobbying the regulatory environment.
- Operational Management: KenGen is expected to deliver lean operations through delivery of value and cost management
- Organizational Health: derives value through organisational effectiveness from improved structure, culture and processes.

The strategic pillars and the organizational foundation are anchored by fifteen (15) specific focus areas and together they constitute the "KenGen Strategic Temple" which is provided in the chart below.

Figure 4: KenGen Strategic temple



8.9 Generating Assets

KenGen's principal generating assets are distributed in Hydro; Geothermal; Thermal and Wind as follows:

8.9.1 Hydro Generation Assets

The hydro generation assets comprise of;

(i) Eastern hydro plants that include the seven-forks cascade – Masinga; Kamburu; Kindaruma; Gitaru and Kiambere (as shown in Figure 5 below) and the Minihydros – Tana, Wanjii, Sagana, Ndula and MesCo; and

(ii) Western hydro plants that include Turkwel, Sondu, Gogo and Sosiani.

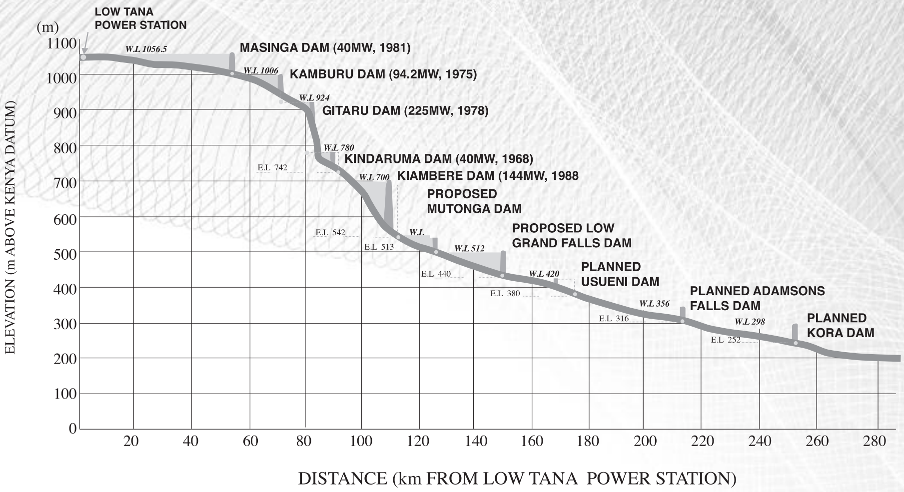


Figure 5: Seven Forks Cascade along Tana River Basin

Description

(i)Eastern Hydro Power Plants – Seven Forks Cascade

MASINGA POWER STATION

Commissioned in 1981 with an installed capacity of 40MW (2x20), the plant is the first one in the cascade. The Masinga reservoir has a capacity of 1.56 billion cubic metres with a live storage capacity of 1.367 billion cubic metres. It serves as a regulation reservoir for the Tanta River cascade and water released from this reservoir is used to operate other power stations in the cascade. The dam occupies a surface area of 120Km2.

Masinga Dam Developments 26 June 2009: Masinga Dam, the uppermost in the Seven Forks cascade which serves as water storage facility (main reservoir) for downstream dams, has been closed due to constrained water levels following the failed rains. It is imminent that this dam will only re-open once sufficient rains have been received in October 2009. The Masinga dam which has an installed capacity of 40MW had a load factor of 65.5% in 2007/8.

The failed rains will adversely affect the electricity production of the other hydro power generating plants which situation will only be remedied once adequate rains have been received. Due to this situation, KenGen has been compelled to increase its power generation from thermal plants.

KAMBURU POWER STATION

This underground plant was commissioned in 1974 (Units 1&2) and 1976 (Unit 3) with a total installed capacity of 94.2MW (3x31.4). The reservoir has a live storage of 135 million cubic meters and is boosted by Thiba River – a tributary of Tana River. The discharge water is conveyed to Gitaru Power Station via a 2.9kilometres tailrace tunnel.

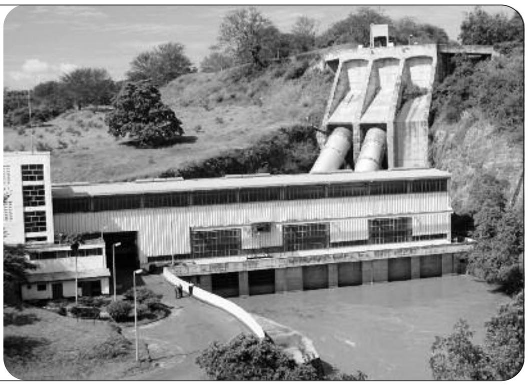
GITARU POWER STATION

The first two units of 145MW (2x72.5) were commissioned in 1978 and the third unit of 80MW in 1999.

With an installed capacity of 225MW, this underground plant is the biggest in national grid. The discharge from Gitaru Station is conveyed through a 5km tailrace tunnel into Kindaruma reservoir.

KINDARUMA POWER STATION

Commissioned in 1968 with an installed capacity of 40MW (2x20), Kindaruma is the oldest plant along the Tana cascade. The discharge water is then passed down to Kiambere Reservoir. A third unit (25MW) is planned for 2011 as part of KenGen capacity expansion programme.



KIAMBERE POWER STATION

Commissioned in 1988 with an installed capacity of 144MW (2x72), Kiambere is the fifth power station in the Seven Forks Cascade and second largest in the national grid. The plant runs mostly as base load.
This underground plant is situated 4km away from the saddle dam. Kiambere reservoir capacity is 585 million cubic metres with a live storage of 477 million cubic metres.
The plant is being up rated to 164MW by September 2009.

(ii) Eastern Hydro Power Plants – Minihydros

TANA POWER STATION

Commissioned between 1932 (Machine 1, 2 & 3), 1955 (Machines 5&6) with an installed capacity of 14.4MW, Tana power plant is fed by Maragua river at its confluence with Tana River.

It's being redeveloped to 20MW with a commissioning date planned for April 2010.

WANJII POWER STATION

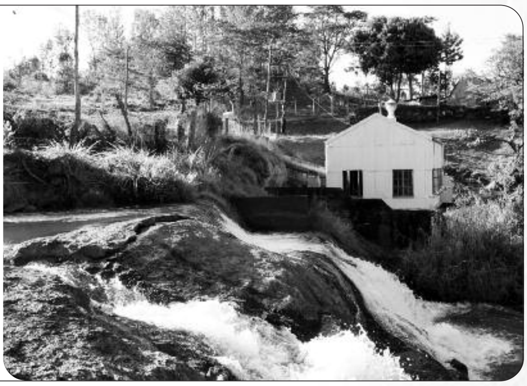
Commissioned in 1955 with an installed capacity of 7.4MW

SAGANA POWER STATION

Commissioned in 1952 with an installed capacity of 1.5MW.

MESCO POWER STATION

Commissioned in 1919 with an installed capacity of 0.35MW



NDULA POWER STATION

Commissioned in 1924 with an installed capacity of 2MW

Western Hydro Power Plants

SONDU MIRIU POWER STATION

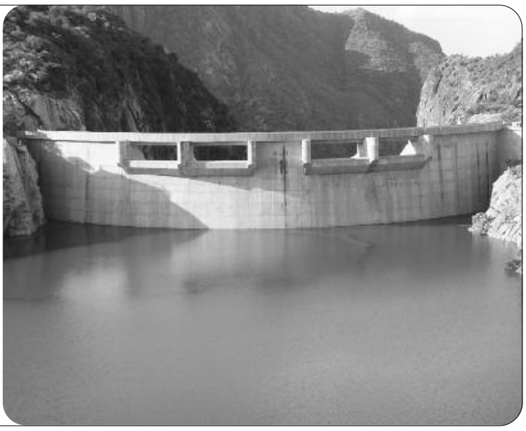
The Sondu/Miriu Hydropower Project is a 60MW 'run-off' river plant with only a small storage capacity at the intake. Commissioned in 2008, it has an average annual energy production of 330 million units.

Water released will be used to generate an additional 21MW at Sang'oro Power Plant with a target commissioning date of 2011.

TURKWEL POWER STATION

This underground plant (250m) situated in West Pokot was commissioned in 1991 with an installed capacity of 106 MW (2x53). Its storage reservoir is 6,500 hectares with a capacity of 1.6 billion cubic meters.

The station has a thin, double cambered arch dam with a maximum height of 150metres. The headrace and penstock are 5.5kilometres long with a diameter of 4.7metres. The tailrace tunnel is 1.5kilometres long.



GOGO POWER STATION

Commissioned in 1952 with an installed capacity of 2MW

SOSIANI POWER STATION

Commissioned in 1955 with an installed capacity of 0.4MW

8.9.2 Thermal Generation Assets

The thermal generation assets are summarised below.

THERMAL

KIPEVU I DIESEL POWER PLANT

Kipevu I diesel plant with an installed capacity of 73.5MW, was commissioned in 1999. It has 6 diesel engines each rated at 12.25 MW nominal.

The plant runs on Heavy Fuel Oil (HFO).

KIPEVU GAS TURBINES

Kipevu GT has two gas turbines each rated at 30 MW.

Gas Turbine 1: Commissioned in 1987.

Gas Turbine 2: Commissioned in 1999.

The plant runs on Kerosene

NAIROBI SOUTH

Nairobi South power station is a 13.5MW plant situated in Nairobi's Industrial Area. It was commissioned in 1972 as a peaking plant.

It runs on Automotive Gas Oil (AGO).

OFF-GRID THERMAL STATIONS

These include

- **Lamu Power Station**

  Situated on Lamu Island the station was commissioned in 1968. It has an installed total capacity of 1.778MW. It uses Industrial Diesel Oil (IDO)

- **Garissa Power Station**

  The Station was commissioned in 1994 and has an installed capacity of 3.4MW.

  It uses Industrial Diesel Oil (IDO)

NGONG WIND POWER STATION

Commissioned in 1988, the plant is rated at 0.35MW. It is one of the three pilot wind power plants in Kenya developed with Belgium grant assistance.

A new 5.1MW plant is set for commissioning in Sept. 2009

8.9.3 Geothermal Generation Assets

The geothermal generation assets are summarised below.

GEOTHERMAL

Olkaria I Power Station
Olkaria I installed capacity is 45MW (3x15).
The first unit was commissioned in 1981 followed by the second and third units in 1982 and 1985 respectively.
To date, a total of 33 wells are connected to the plant supplying steam of about 9.2 tonnes per hour per MW.
The plant has had an average availability factor of over 95%.

Olkaria II Power Station

Commissioned in 2003, Olkaria II has an installed capacity of 70MW (2x35) and is the largest geothermal power plant in Africa.

It has an average steam consumption of 7.5 t/h/MW with an annual availability of 98%.

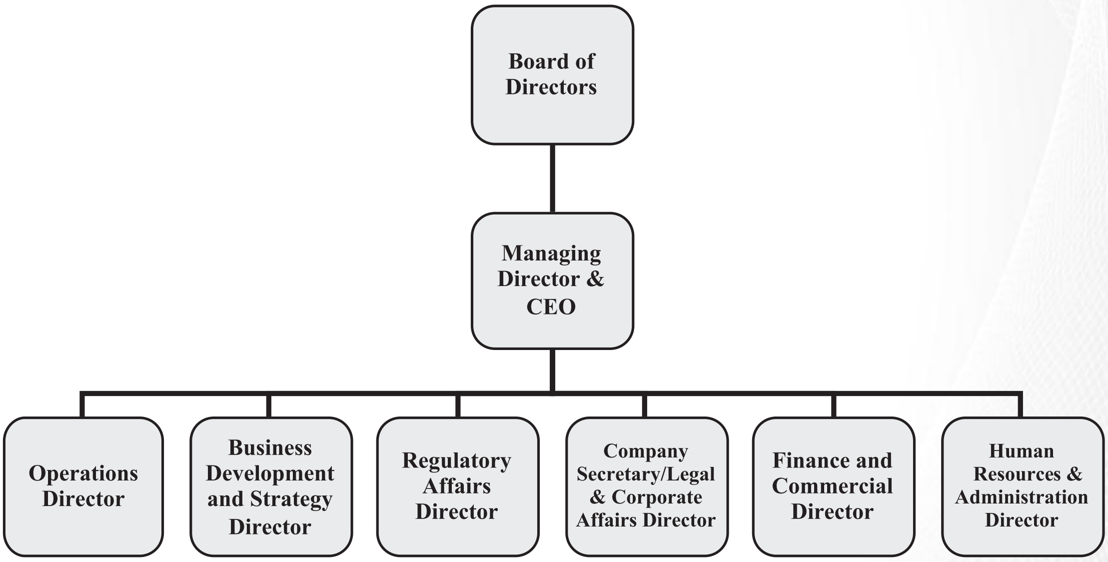
8.10 Tariff plans

The Company intends to make an after tax return on capital employed of 15% for all new/future electricity generation projects.

8.11 Organisation structure, management and employees

8.11.1 Organisation structure

The organisation structure of KenGen is as follows



8.11.2 Employees

KenGen employed 1,590 employees as at 31 December 2008.

8.11.3 Directors

The directors of KenGen, together with summary career resumes, are as follows:

Titus Mbathi

Hon Mbathi, Chairman of the Board, aged 80 years, holds a BA (Economics) from Madras University, India and an MA in Economics from New York University, USA. He has previously been a Minister of Labour and Permanent Secretary in various ministries and served on several boards. Hon. Mbathi is currently a director of Athi River Mining Limited and Platinum Credit Limited. His postal address is P.O Box 47936, Nairobi - 00100.

Edward Njoroge

Mr Njoroge aged 56 years, a holder of BSc (Hons) Chemistry from Makerere University, has been the Managing Director since 2003. He holds other directorships in CFC Stanbic Bank Kenya, Real Insurance Company Limited, Proctor & Allan (EA) Limited, Nairobi Stock Exchange and Access Kenya Group Limited and other leading enterprises in Eastern Africa. He is also a director of Tana Athi River Development Authority (TARDA) and Kerio Valley Development Authority (KVDA). Mr Njoroge is also the current President of the Union of Producers, Distributors and Transporters of Electric Power in Africa (UPDEA). His postal address is P.O Box 47936, Nairobi - 00100.

Joseph Kinyua

Mr Kinyua, aged 58 years, is the Permanent Secretary. Ministry of Finance and holds BA (Econ) & MA (Econ) from the University of Nairobi. He has previously held senior positions in the Central Bank of Kenya, International Monetary Fund and various government ministries. He has served as Permanent Secretary in the Ministries of Planning and National Development and Agriculture. He is a director of several State Corporation Boards and is an Alternate Governor on the World Bank Board of Governors. Mr Kinyua, is currently the Chairman of the East African Development Bank. His postal address is P.O Box 30007, Nairobi - 00100.

Patrick Nyoike

Mr Nyoike, aged 61 years, holds a BSc (Hons) in Mathematics and Physics from the University of Ghana and a BPhil (Econ) from the University of Nairobi and is currently the Permanent Secretary, Ministry of Energy. He has previously held senior positions in various ministries including Finance and Energy. Mr Nyoike has written several papers on energy some of which have been published in the course of his long civil service career. His postal address is P O Box 30582, Nairobi - 00100.

Sarah Wainaina

Ms Wainana, aged 67 years, is the Chairman of the Board Strategy Committee. She holds a Bachelor of Arts degree from Morningside College, Iowa USA and postgraduate studies in Anti-trust Law, Micro Economics and Development Policy from Harvard University. Ms Wainaina was previously a Commissioner of Monopolies and Prices. Ms Wanaina is a member of the Board of Governors of Kirangari High School. Her postal address is P O Box 60212, Nairobi - 00200.

Eng Musa Ndeto

Mr Ndeto, aged 57 years, is the Chairman of both the Board's G2G Steering and Procurement Oversight Committees. He holds a BSc (Hons) in Electrical Engineering from the University of Nairobi and is a Member of Electrical Engineers of United Kingdom (MIEE). Mr Ndeto is also a Director of Kenya, Commercial Bank and is currently in private practice. His postal address is P.O Box 15045, Nairobi - 00509.

George Njagi

Mr Njagi, aged 62 years, is a former Deputy Secretary, Ministry of Transport and Communications Chief Excutive Officer Secretary of the Civil Aviation Board with a wealth of experience in civil aviation and air transport. He has also served as an alternate director of Kenya Airport Authority. His qualifications include certificates in basic and advanced training in air traffic control from the East African School of Aviation and Copenhagen, Denmark among other specialised training in Luxembourg, Canada and UK. Mr Njagi is the Chairman of the Staff Committee of the Board. His postal address is P.O Box 204 Mukurwe -ini.

Dorcas Kombo

Mrs Kombo, aged 55 years, is a Fellow, Chartered Association of Certified Accountants, an Associate Institute of Certified Public Accountants of Kenya and a Member of the Institute of Certified Public Secretaries of Kenya. She is currently a Management Consultant and has extensive experience in restructuring both public and private organizations across Africa. She is a director of Metis Consulting and Eleven Ninety One Coffee Estates Limited. Mrs Kombo chairs the Audit Committee of the Board. Her postal address is P.O Box 25690, Nairobi - 00603.

Hedrick Omanwa

Mr Omanwa, aged 44 years, holds a B.COM degree and MBA from University of Nairobi. He is a member of both the Institute of Certified Public Accountants and the Institute of Certified Public Secretaries of Kenya. He is the Managing Partner of Omanwa & Associates, an audit and consultancy firm. Mr Omanwa is currently a member of the Board's Audit Committee. His postal address is P.O Box 64447, Nairobi - 00620.

Henry M'Narobi

Mr M'Narobi, aged 63 years, holds a BA (Hons) degree from University of Nairobi. He has held senior positions in both the government and international organisations and served the African Development Bank in Abidjan for 14 years. He is the Chairman of the Presbyterian Foundation and chairman/member of the Boards of Governors for various schools, colleges and hospitals in Kenya. Mr M'Narobi has also assisted in projects catering for the needs of the Liberian refugees in Cote D'lvoire. His postal address is P.O Box 66799, Nairobi - 00800.

Peter Muriithi

Rev Muriithi, aged 60 years, graduated with honours in BA (Phil) from the University of London, UK, Masters in Religious Education, Trinity Western University, Canada, Bachelor of Theology, Masters in Counselling & Leadership and Doctor of Christian Education from the Freeland Bible College & Seminary USA. Rev Muriithi is a PHD student at Kenyatta University. His postal address is P.O Box 328- 10400, Nanyuki.

Humphrey Muhu (Alternate to Joseph Kinyua)

Mr Muhu, aged 44 years, holds a BSc (Mathematics & Statistics) from Kenyatta University, B Phil (Economics) degree from the University of Nairobi and MA in Economics from the University of Nairobi. He is the alternate director to the Permanent Secretary, Treasury. Mr Muhu is an Economist with 17 years experience in various government ministries and departments. His postal address is P.O Box 30007, Nairobi - 00100.

John Omenge (Alternate to Patrick Nyoike)

Mr. Omenge, aged 48 years, holds a BSc degree in geology from University of Poona, India and MSc Mineral Exploration and Mining Geology from the Leicester University UK. He is the alternate director to the Permanent Secretary, Ministry of Energy and is currently the Chief Geologist at the Ministry of Energy. He is a Professional Member of the Geological Society of Kenya and Registered Geologist by the Geologists Registration Board of Kenya. Mr Omenge has worked for 25 years as a Geologist for the Government of Kenya. His postal address is P. O. Box 30582 Nairobi-00100.

Rebecca Miano

Mrs Miano, aged 41 years, is the Company Secretary/Legal & Corporate Affairs Director of the Company. She holds a LLB (Hons) from University of Nairobi, Diploma in Law from Kenya School of Law and Post Graduate studies in Comparative Law from University of Queensland, Australia. She is an Advocate of the High Court of Kenya and a Certified Public Secretary. Mrs Miano has served the Company in various capacities before her current appointment. Her postal address is P.O Box 47936, Nairobi - 00100.

8.11.4 Senior management

The summary career resumes of the Company's senior management are provided below.

Name: Edward Njoroge	**Position: Managing Director**
Age	56 years
Academic Qualifications	BSc (Hons)
Experience in KenGen	Appointed as Director (Executive) and Managing Director on 26 March 2003.
Other Experience	Started career with Twiga Chemical Industries in 1975 and held senior positions with Akile Associated Ltd before moving to ABCON Group in 1977. Other directorships include CFC Stanbic Bank Kenya, REAL Insurance Company, Proctor & Allan (EA), Nairobi Stock Exchange, Access Kenya Group Ltd, and other leading enterprises in Eastern Africa. He is also a director of TARDA and KVDA. Mr Njoroge is also the president of the Union of Producers, Distribution and Transporters of Electric Power in Africa (UPDEA).

Name: Richard Nderitu	Position: Operations Director
Age	53 years
Academic Qualifications	BSc (Eng.) (Hons.), R. Eng. and currently completing an MBA in Operations
Professional Qualifications	MIEK and MKIM
Experience in KenGen	Held managerial positions in Operations and was appointed Chief Manager, Operations in 2003, a role he served until 2008 when he was promoted to the position of Operations Director.
Other Experience	30 years experience in electric power generation and management, including 3 years as the Transport Manager at Kenya Power & Lighting Company. He joined the then East African Power and Lighting Company in 1978 up to 1997 starting as an apprentice engineer and rose through the ranks to a managerial position.

Name: Albert Mugo	Position: Business Development and Strategy Director
Age	51 years
Academic Qualifications	BSc (Electrical Engineering) MBA
Experience in KenGen	Joined KenGen in September 2008 as the Business Development and Strategy Director.
Other Experience	Previously worked for over 25 years in Kenya Power & Lighting Company Ltd. He has 17 years experience in power system planning andprojectdevelopment. He has been involved in regional power trade initiatives through the Nile Basin Initiative and the Eastern African Power Pool

Name: Simon Ngure	Position: Regulatory Affairs Director
Age	47 years
Academic Qualifications	BSC (Hons) Mechanical Engineering and Diplomas in Geothermal Technology and Project Management. Currently completing the MBA portion of a Doctorate Programme
Professional Qualifications	Member of the Institute of Engineers in Kenya and a professional energy manager registered with the Associations of Energy Engineers of South Africa and USA.
Experience in KenGen	Joined KenGen in 1981, and had a long career as a Drilling and Project Engineer until his appointment to the current position in September 2008.

Name: Rebecca Miano	Position: Company Secretary, Legal and Corporate Affairs Director
Age	41 years
Academic Qualifications	LLB (Hons) Law degree and Post Graduate studies in Comparative Law
Professional Qualifications	Advocate of the High Court of Kenya and a Certified Public Secretary.
Experience in KenGen	Has served the Company in various capacities. Was appointed Company Secretary in September 2006 and became the Company Secretary, Legal & Corporate Affairs Director in 2008.
Other Experience	Rebecca serves on the Board of Trustees of the KenGen Retirement Benefit Scheme. Rebecca has also been in private practice.

Name: John Mudany	Position: Finance and Commercial Director
Age	45 years
Academic Qualifications	Bcom (Hons), MBA MIBA (International Business)
Professional Qualifications	Fellow and former Council Member of Institute of Certified Public Accountants of Kenya (ICPAK); currently member of Disciplinary Committee of ICPAK.
Experience in KenGen	Appointed by KenGen in September 2008 as the Finance and Commercial Director.
Other Experience	Held senior Management positions at Kenya Airways, Coca Cola bottling, Orbit Distributors, World Vision and PWC. He has been Africa's Representative in IATA Fuel Group and Chairman of AFRAA Fuel Committee.

Name: Beatrice M. Soy	Position: Human Resources and Administration Director
Age	48 years
Academic Qualifications	BEd (Hons), MEd (Mgt.)
Experience in KenGen	In 1997 Mrs Soy, was appointed as Human Resources & Administration Manager and promoted to Chief Manager, Human Resources in 2001. She was promoted to her current position in 2008. She is a Council Member of the Masinde Muliro University of Science and Technology and also a Member of IHRM.
Other Experience	Joined KPLC in 1996 as the Principal in the Training School, after gaining 10 years experience in training and other senior management positions in public sector. Beatrice also serves on the Board of Trustees of the KenGen Retirement Benefit Scheme.

Name: David Muthike	Position: Transformation Monitoring Manager
Age	38 years
Academic Qualifications	BSc (Hons) Electrical Engineering, MBA (Strategy), Post-Graduate Diploma (Project Appraisal & Management).
Experience in KenGen	Joined KenGen in 1999 and served in Corporate Planning and Technical Assurance Departments. Mr Muthike has been Personal Assistant to the Managing Director since 2005. Mr Muthike was appointed to his current position in 2008.
Other Experience	Worked in Symphony Ltd and trained in KPLC before joining KenGen in 1999.

Name: Maurice Odundo	Position: Manager, Internal Audit
Age	53 years
Academic Qualifications	BA
Professional Qualifications	CPA (K) CPS (K)
Experience in KenGen	Joined KenGen in 1999 and rose through the ranks to the position of Internal Audit Manager. Maurice was appointed to his current position in February 2009
Other Experience	20 years experience in auditing, accounting, financial management and general management which he gained while working as an external auditor with Ernst & Young, Chief Internal Auditor and Financial Controller in the hotel industry and as a Practising Accountant in private practice.

8.11.5 Directors emoluments

The following table summarises all sums paid or agreed to be paid to the directors of the Company within the three years immediately preceding the date of the publication of the Information Memorandum

Table 7: Summary of directors' emoluments

Year ended	30 June 2006 Kshs' 000s	30 June 2007 Kshs' 000s	30 June 2008 Kshs' 000s
Directors fees	3,240	3,450	3,600
Other emoluments	9,295	18,325	19,687
Total	**12,535**	**21,775**	**23,287**

The amounts contracted to be paid by the Company to the Directors for the current financial year to 30 June 2009 under arrangements in force as at the date of this Information Memorandum is approximately Kshs. 20,400,000

9 Shareholding and corporate governance

9.1 Shareholders

On 20 March 2006, the Government of Kenya (GoK), who wholly owned the KenGen, offered 30% of its shareholding for sale to the public through an Initial Public Offer (IPO) and subsequently the Company listed on the Nairobi Stock Exchange (NSE). The shares commenced trading on the NSE, on 17 May 2006.

A list of the ten largest shareholders as at 30th June 2009 is as follows:

Table 8: List of the ten largest shareholdings

	No. of shares	% shareholding
Permanent Secretary, Treasury	1,538,853,019	70.00
National Social Security Fund	17,334,800	0.79
Barclays (Kenya) Nominees Limited A/C – 9230	10,175,300	0.46
Prime Capital Holdings Limited	9,000,000	0.41
Kenya Commercial Bank Nominees Limited A/c 769G	6,878,392	0.31
Jennid Trading Limited	5,455,794	0.25
Barclays (Kenya) Nominees Limited A/C 1853	5,046,204	0.23
Kensington Developers Limited	4,148,427	0.19
Barclays (Kenya) Nominees Limited A/C 9187	4,052,002	0.18
Kenya Commercial Bank Nominees Limited A/c 744B	4,021,900	0.18
	1,604,965,838	**73.01**
216,718 Other shareholders	593,395,618	26.99
Total	**2,198,361,456**	**100.00**

Table 9: Distribution of shareholdings

Range	No. of Shareholders	Shares	% Shareholding
1 – 500	90,885	24,926,229	1.13%
501 - 1,000	46,355	36,927,367	1.68%
1,001 - 5,000	53,516	115,306,339	5.25%
5,001 - 10,000	21,460	140,649,127	6.40%
10,0001 - 50,000	3,799	72,862,885	3.31%
50,001 - 100,000	313	21,553,938	0.98%
100,001 - 500,000	299	65,742,996	2.99%
500,001 – 1,000,000	47	34,845,186	1.59%
Above 1,000,000	54	1,685,547,389	76.67%
Total	**216,728**	**2,198,361,456**	**100.00**

9.2 Corporate Governance Practices

KenGen is managed under the direction of the members of the Board whose objective is to maximize long-term economic value for stakeholders by responsibly addressing the concerns of employees, business partners, investors, shareholders, the communities where KenGen has operations and the public at large. In fulfilling its duties, the Board and its Committees oversee the corporate governance of KenGen, advises management in developing the financial plans, corprate stratergy, goals and objectives of the Company and evaluating management.

KenGen's Board has adopted corporate governance standards aimed at enhancing transparency and adherence to the laid down policies and procedures. To safeguard the shareholders interests, the Board consists of eleven members, including a non-executive Chairman.

9.2.1 Responsibilities of the Board

Separating the role of the Chair to the Board from the role of the Managing Director & CEO helps in achieving an appropriate balance of power, increases accountability and improves the Board's capacity for decision making independent of the management. KenGen Board's independence from the Company's corporate management is ensured by the separation of the function of Chairman to the Board from that of the Chief Executive Officer, and by a clear definition of their responsibilities.

- The Board of directors defines the purpose of KenGen, that is, its strategic intent and objectives, and its values. It is also responsible for ensuring that procedures and practices are in place, to protect the Company's assets and reputation.
- The Board is explicitly responsible for the stewardship of the corporation and in discharging its obligations.
- The Board is concerned with key elements of the governance processes underpinning the operation of the corporation.

9.2.2 Board Performance Contract

KenGen's Board, in line with the GoK directive on Performance Contracting (PC), signed the performance contract with the GoK for the financial year 2008/09 whose duration is 12 months.

9.2.3 Board Committees

Five board committees have been set up to support the full board in performing its functions, particularly in respect to audit, strategy and staff. The setting up of the board committees is instrumental in reinforcing the competency of the board in underpinning its critical responsibilities.

9.2.3.1 Responsibilities of the board committees

The responsibilities of the board committees' are as detailed below:

Audit Committee

- To monitor and review the integrity of KenGen's financial statements, internal financial control system and risk management systems and make recommendations to the Board.
- To monitor and review the effectiveness of the Board's internal audit function.
- Assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks
- Ensure that arrangements are in place for the proportionate and independent investigation of any matter ouching on improprieties.

- To monitor and review the external auditor's independence, objectivity and effectiveness
- Assist the Managing Director and CEO in enhancing internal controls in order to improve efficiency, transparency and accountability
- Review audit issues raised by both the internal and external auditor.
- Resolve unsettled and unimplemented recommendations of the Public Investments Committee
- Receiving, reviewing and evaluating technical compliance, performance and financial audit reports, reports by external and internal audit reports and making recommendations
- Reviewing and monitoring the performance of the technical compliance, performance and financial audits consultants.
- Reviewing annually the Committee's terms of reference and its effectiveness and recommend changes to the Board

Strategy Committee

- Developing and reviewing the KenGen Board Charter and (Board Scorecard) to enhance the corporate governance, ethics and ensure achievement of the corporate objectives.
- Assisting the Board in discharging its responsibilities in the form of recommendations and reports submitted to Board meetings.
- Developing or reviewing the Company's strategy and investment policies and making appropriate recommendations to the Board on issues of strategy adjustment.
- Developing or reviewing the progress of the Company's Strategy execution plans through, among others, identification of priority areas.
- Evaluating and recommending for approval by the Board business cases for all categories of investment projects and new ventures including strategic partnerships within its delegated authority.
- Monitoring, evaluating and overseeing the Company's health including but not limited to the review of financial and business plans and the overall Company's performance management system.
- Guiding the Company transformation (change) in the post IPO environment as well as guiding other high impact (key) strategic initiatives.
- Holding ad hoc meetings (consultations) with strategic stakeholders, customers, regulators, financiers, investors.
- Review bulk tariffs and PPAs
- Undertaking any other strategic matters as may be directed by the Board.

Staff Committee

- Continually examine the Company structure, core functions and staff establishment and if necessary to make proposals for harmonization and rationalization
- To examine policy and procedures on employment and staff promotion
- To examine the procedures for assessment of needs for employment and staff development and in addition the procedures for staff training
- To examine and review the terms and conditions of services
- To examine the adequacy of performance and reward system
- To examine and review staff welfare policy and inter-station activities
- To review collective bargaining agreement proposals and make recommendations for broad guidelines
- Propose innovative ideas for transformation of KenGen into a world- class enterprise and employer

Procurement Oversight Committee

- Considering and endorsing all the annual procurement plans for submission to the Board
- Receiving and discussing all the quarterly procurement reports before they are submitted to the Board
- Approving proposals of the Tender Committee for major procurement works which have a strategic impact on the Company
- Dealing with procurement issues from time to time
- Annually reviewing its own performance, constitution and terms of reference and recommend any changes it considers necessary for approval

G2G Steering Committee

- Spearheading the G2G transformation program
- Providing guidance on major organisational road blocks
- Mobilising resources to achieve the transformational targets

9.2.3.2 Members of the Board Committees

The members of the various committees are:

Table 10: Members of the Board Committees

	Audit Committee	Staff Committee	Strategy Committee	Procurement Oversight Committee	G2G Steering Committee
Mr. Titus K. Mbathi				√	
Mr. Edward Njoroge	√	√	√	√	√
Permanent Secretary - Ministry of Finance	√		√		
Permanent Secretary - Ministry of Energy		√	√		
Ms. Sarah W. Wainaina			√	√	√
Mr Musa Ndeto			√	√	√
Mr George M. Njagi		√			√
Mrs Dorcas F. Kombo	√	√			
Mr Hedrick M Omanwa	√			√	
Mr. Henry M'Narobi			√		√
Rev. Peter K. Muriithi		√			

10 Capital and borrowings

10.1 Share Capital

The authorized, issued and fully paid share capital for the years ended 30 June 2008, 2007, 2006 and 2005 is as stated below.

Authorized Share Capital

Table 11: Analysis of authorised share capital

	30-Jun-08 Kshs'000	30-Jun-07 Kshs'000	30-Jun-06 Kshs'000	30-Jun-05 Kshs'000
2007-2006: 2,215,927,528 ordinary shares of Kshs 2.50 each; (2005: 276, 990,941ordinary shares of Kshs 20 each)	5,539,819	5,539,819	5,539,819	5,539,819

Issued and Fully Paid

Table 12: Analysis of issued and fully paid share capital

	30-Jun-08 Kshs'000	30-Jun-07 Kshs'000	30-Jun-06 Kshs'000	30-Jun-05 Kshs'000
2007-2006; 2,198,361,456 ordinary shares of Kshs 2.50 each; (2005: 274, 795,182 ordinary shares of Kshs 20 each)	5,495,904	5,495,904	5,495,904	5,495,904

A special resolution was passed by the Board on 5 December 2005, to split the authorised share capital of the Company in the ratio of one share held for eight resulting in the authorised share capital increasing from 276,990,941 shares of Kshs 20.00 each to 2,215,927,528 ordinary shares of Kshs 2.50 each and the issued shares increasing from 274,795,182 to 2,198,361,456, respectively.

Within the two years immediately preceding the date of this Information Memorandum, there has been no change to the shareholding structure of the Issuer.

The Issuer has no subsidiaries and associates.

10.2 Borrowings

An analysis of term loans is as follows:

Table 13: Analysis of loans

	30-Jun-08 Kshs'000	30-Jun-07 Kshs'000	30-Jun-06 Kshs'000	30-Jun-05 Kshs'000
Amounts due within one year	1,531,116	1,023,189	1,070,516	2,808,422
Amounts due in more than year	19,466,078	16,040,695	17,366,772	17,410,137
	20,997,194	17,063,884	18,437,288	20,218,559

The table below provides an analysis by loan:

Table 14: Analysis of loans

	30-Jun-08 Kshs'000	30-Jun-07 Kshs'000	30-Jun-06 Kshs'000	30-Jun-05 Kshs'000
EIB-11.64% ABN AMRO Bank loan (Kipevu)	-	-	-	91,442
Kipevu -JICA loan(KE-P20)	4,416,470	4,128,100	5,208,611	5,877,016
Sondu Miriu-JICA loan(KE – P21)	3,924,950	3,636,768	4,232,011	4,257,570
IDA 2966 KE credit loan	5,192,940	5,343,043	6,469,371	7,050,225
Olkaria II 7.7% KFW Loan	113,744	109,157	124,577	131,866
Sondu Miriu Phase II – JBIC/JICA(KE-P23)	6,102,786	3,629,590	2,153,576	1,325,936
JBIC KE P24 0.75%	56,829	-	-	-
Olkaria II Extension –IDA 3958 KE Loan	314,820	100,225	110,574	67,356
Ngong Wind KBC loan (Belgium) 1.5%	306,471	-	-	-
Total loans	**20,429,010**	**16,946,884**	**18,298,721**	**18,801,412**
Interest payable accruals	568,184	117,001	138,567	1,417,148
	20,997,194	**17,063,885**	**18,437,288**	**20,218,559**

Below is a table summarizing the terms and conditions of loans in force and under negotiation.

Table 15: Terms and conditions of loans

Lender	Project	Year	Balance advanced	Rate (%)	Tenure (yrs) period yrs)	Grace
OEC Fund	Sondu Miriu	1997	JPY 6,425,686,000	2.3	20	10
KfW	Olkaria II	1999	Euro 1,113,423	7.7	15	4.5
IDA	Olkaria II	2003	USD 80,268,775	7.7	15	5
JBIC	Sondu Miriu	2004	JPY 9,991,104,024	0.75	30	10
IDA	Olkaria II extension	2005	USD 4,866,264	4.5	15	5
JBIC	Kipevu 75 MW	1995	JPY 7,230,372,000	2.6	20	10
JBIC	Sangoro power plant	January 2007	JPY 5,620,000,000 (Disbursed JPY 93,036,864)	0.75	30	10
KBC Bank NV	Ngong wind	7April 2008	Euro 11,314,681.73 (Disbursed Euro 3,000,000)	1.5	14.5	2.67
AFD	Olkaria II 3rd unit	2 April 2009	Euro 20,000,000	5.4% cap	12	3
EIB	Olkaria II extension	Under negotiation	US $ 50,000,000	Fixed rate + 1.95% or LIBOR + 1.95%	15	3

11 Commentary on land and buildings revaluation

11.1 Land

There are approximately 146 pieces of land to which KenGen claims some form of entitlement (including interests as lessee). This total figure is broken down as follows:

- KenGen is registered proprietor of 116 properties.
- KenGen holds letters of allotment in relation to 3 properties and is pursuing titles in relation thereto.
- KenGen is seeking extensions of leases from GoK in respect of 9 properties.
- KenGen is pursuing issuance of letters of allotment/transfers/ issuance of title in respect of 11 properties.
- KenGen has leased 7 properties from third parties

11.2 Asset Revaluation

The latest asset valuation was carried out in 2005, when KenGen commissioned CB Richard Ellis to carry out a valuation of its assets with a view to ascertaining the market value of its assets. The revalued amounts were subsequently brought into KenGen's books in 2007. The table below summarises the composition of KenGen's Plant and Machinery and the resulting revaluation surplus as at 30 June 2006. As such the information does not include asset additions after 30 June 2006.

Table 16: Asset revaluation on plant and machinery by project at 30 June 2006

Project	NBV Kshs' 000s	Valuation Kshs' 000s	Surplus/(Deficit) Kshs' 000s
Kiambere	7,414,376	8,894,848	1,480,472
Kindaruma	33,773	3,424,767	3,390,994
Gitaru	936,871	8,707,434	7,770,563
Kamburu	26,228	6,690,363	6,664,135
Masinga	1,316,956	2,585,825	1,268,869
Turkwell	4,169,982	9,084,346	4,914,364
Tana	7,978	1,145,019	1,137,041
Sosiani	33,904	42,477	8,575
Wanjii	7,240	700,200	692,960
Gogo	78,669	340,921	262,251
Ndula	33,244	37,956	4,712
Mesco	41,181	53,276	12,096
Sagana	131,918	152,348	20,431
Kipevu Gas	69,238	2,380,729	2,311,491
Kipevu Diesel	3,274,191	4,275,783	1,001,592
Lamu	16,868	27,638	10,770
Garissa	154,614	189,567	34,953
Nairobi South	3,914	78,210	74,296
Olkaria 1	1,083,673	4,932,770	3,849,097
Olkaria 2	11,913,033	11,771,936	(141,097)
Ngong	12,545	28,842	16,298
Total	**30,760,396**	**65,545,255**	**34,784,863**

Source: KenGen's Audited and Management Accounts

11.3 Insurance values

The table below summarises the insurance cover for the various property, plant and equipment for the period 30 June 2008 to 30 June 2009.

Table 17: Insurance covers/Values

	Engineering KShs	Fire Kshs
Thermal and Wind Stations		
Kipevu Gas Turbines	975,675,600	3,360,217,400
Nairobi South G.T	500,700,200	618,969,200
Garissa Diesel	88,214,300	241,106,500
Lamu Diesel	42,600,000	60,498,400
Ngong Wind	20,106,700	88,088,200
	1,627,296,800	**4,368,879,700**
Hydros		
Kipevu diesel	3,922,650,000	6,081,199,900
Hydros – Seven Forks		
Kiambere	2,698,449,000	9,013,303,500
Kindaruma	964,000,000	4,344,733,200
Gitaru	4,120,485,500	11,416,389,500
Kamburu	1,968,508,000	9,017,736,500
Masinga	1,151,280,000	3,135,163,400
	10,902,722,500	**36,927,326,100**
Mini Hydros		
Tana	750,704,400	1,805,209,000
Sosiani	34,153,400	97,069,200
Sagana	128,894,700	294,996,300
Wanjii	425,000,000	1,968,570,000
Gogo	423,004,000	423,004,000
Ndula	210,211,000	237,230,000
Mesco	40,204,000	135,811,000
	2,012,171,500	**4,961,889,500**
Olkaria (I & II)	**5,007,405,600**	**26,460,772,200**
Turkwell	**1,966,500,000**	**4,956,767,600**
Sondu Miriu	**2,380,000,000**	**7,713,839,945**
Grand Total Energy Generating Projects	**27,818,746,400**	**91,470,674,945**
Others		
Comprehensive vehicles (485 cars)	514,732,273	
Commercial Vehicles, Third party only (110 vehicles)	n/a	
Motor speed boat	5,800,000	
Computer accessories and allied equipment including handheld and radio communication accessories	105,085,765	

12 Summary financial information and selected data

The Income Statements, the Balance Sheet provided in the following tables should be read in conjunction with the accountants report and the audited accounts for each of the concerned periods.

The following summary of financial statements relating to the activities of the Company for the years ended 30 June 2005, 2006, 2007 and 2008 has been extracted from the Company's audited financial statements as at such dates and for the periods then ended. The summary should be read in conjunction with the financial statements and related notes appearing in the Appendices hereto.

12.1 Income statement analysis

The table below provides a summary of KenGen's income statements for the years ended 30 June 2005 up to 30 June 2008.

Table 18: Income statements - 2005 - 2008

	30-Jun-08 Kshs 000	30-Jun-07 Kshs 000	30-Jun-06 Kshs 000	30-Jun-05 Kshs 000
Electricity sales - Non Fuel	11,548,176	11,141,219	8,222,708	7,792,265
Fuel Revenue – Pass-through	4,543,387	3,410,548	6,077,352	3,219,312
	16,091,563	14,551,768	14,300,060	11,011,576
Operating expenses	(12,557,479)	(11,074,578)	(11,564,881)	(8,516,880)
Gross profit	**3,534,084**	**3,477,190**	**2,735,179**	**2,494,696**
Other income	333,991	750,835	1,041,266	385,275
Operating profit	**3,868,075**	**4,228,025**	**3,776,445**	**2,879,971**
Net finance income/ (costs)	(2,239,221)	866,267	(55,906)	(261,137)
Impairment of fixed assets on revaluation	-	(375,013)	-	-
Profit before tax	**1,628,854**	**4,719,278**	**3,720,540**	**2,618,834**
Taxation	3,180,591	(2,273,613)	48,395	(865,652)
Net profit for the year	**4,809,445**	**2,445,665**	**3,768,934**	**1,753,182**

The Company has recorded profits in each period covered in this analysis. Total revenues have registered a compounded annual growth rate (CAGR) of 13% and the gross profit margins have been in the range of 19% to 24%. The pre-tax profit has fluctuated between 10% and 32% over the same period. The pre-tax profit margin declined to 10% in 2008 due to costs rising at a higher rate than the growth in revenue. All gains in revenue growth were offset by increased operating costs, and further exacerbated by increased financing costs and reduced incomes from other sources.

The key performance indicators of the Company are set out below.

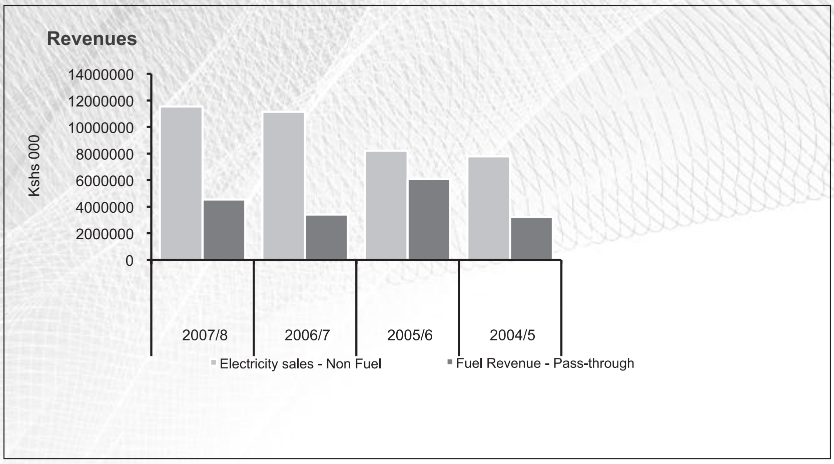
Table 19: Key performance indicators of the Company

	30-Jun-08	30-Jun-07	30-Jun-06	30-Jun-05
Profitability				
Gross margin	22%	24%	19%	23%
Profit before tax margin	10%	32%	26%	24%
Net profit margin	30%	17%	26%	16%
Contribution Margin (EBITDA) – Kshs'000	7,272,412	7,299,365	5,776,586	4,905,601
EBITDA as percentage of revenue	45%	50%	40%	45%
EBIT as percentage of revenue	24%	26%	26%	26%
Interest Cover	4.9	7.0	5.9	3.2
Revenue/ fixed assets	18%	17%	28%	22%
Revenue/total assets	15%	14%	22%	14%
Average revenue per employee (Kshs'000)	7,658	7,369	5,367	5,265
Return on equity	7.3%	4.9%	10.8%	5.4%
Return on total assets	4.5%	2.4%	5.8%	2.3%
Revenue growth	11%	2%	30%	25%
EBITDA growth	0%	26%	18 %	0%

Revenues

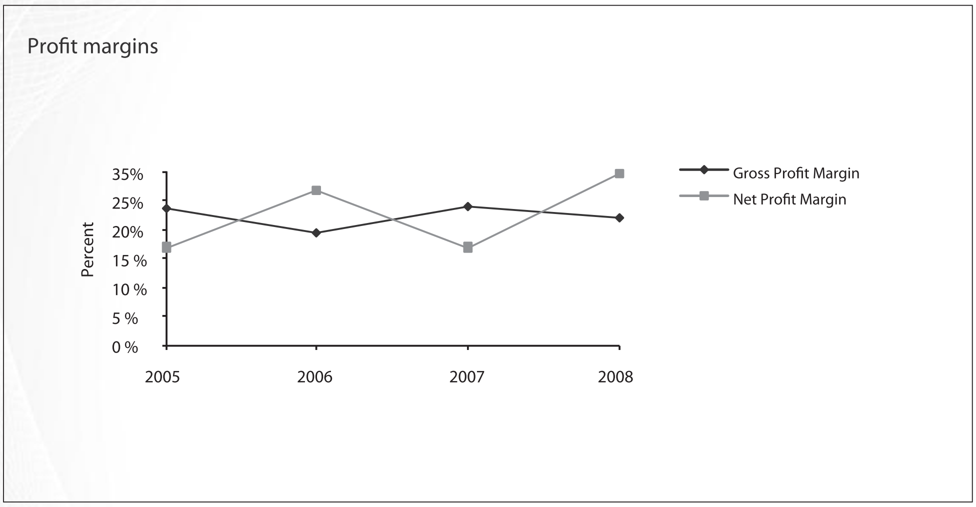
The Company's total revenues have been on the rise during the period under review. Increased sales in 2008 are attributed to the growth in demand for energy and the commissioning of Sondu Miriu in November 2007. Further, the Company has been trying to maximize generation from its existing capacity. Increased electricity sales from 2006 to 2007 is due to an improved energy tariff effective 1 July 2006, from Kshs 1.76/kwh to Kshs 2.36/kwh. It should however be noted that in the financial year ending 30 June 2006 the Company's revenues from fuel pass through accounted for 43% of the total revenues, compared to 29%, 23% and 28% for the years ended 30 June 2005, 2007 and 2008, respectively. The sharp rise in the fuel revenue in 2006 was due to the drought in that year, forcing the Company to generate more electricity from thermal sources compared to other years. Under the IPPA, the Company claims all fuel costs used in electricity generation as pass through costs, that is, they are claimed directly from KPLC. The increase in the use of thermal power reduced the Company's profit margin in 2006 from 23% to 19%. A comparison of the fuel pass-through claims with electricity sales (capacity and energy charges) is depicted in the following graph.

Figure 6: Electricity sales and fuel pass through revenues



The gross profit and net profit margins for the years ended 30 June 2005, 2006, 2007 and 2008 are presented in the figure below.

Figure 7: Gross profit and Net Profit margins



Overall, KenGen had its best performance (net profits) in 2006 and in 2008. The 2006 performance was significantly influenced by other income (approximately Kshs 1 billion), and an overall tax income. Growth in other income was supported by higher funds available for investment, and a higher average yield on investment (10% compared to 5% in 2005). The tax income was supported by a reduced tax rate following the listing on the NSE and the utilisation of losses brought forward from earlier periods.

In 2007, the gross profit margin increased to 24%, resulting from lower usage of thermal power, and higher revenues due to tariff improvements, and a slight increase in electricity output/sales (1.5%).

Pre-tax profit margin was highest in 2007 at 31% due to the appreciation of the local currency against foreign currencies. As a result the financing costs improved by Kshs 922 million in 2007 when compared to 2006. Pre-tax margin was lowest at 10% in 2008 largely due to the depreciation of the local currency against foreign currencies (Japanese Yen and Euro). These exchange losses and interest on loans resulted in financing costs of Kshs 2.24 billion.

The high net profit margin in 2008 is attributed to the significant deferred tax income recorded as a result of the investment deduction allowed following the capitalisation of the Sondu Miriu project.

12.2 Balance sheet commentary

The table below provides a summary of KenGen's income statements for the years ended 30 June 2005 up to 30 June 2008.

Table 20: Balance sheets – 2005 - 2008

	30 - Jun - 08 Kshs' 000s	30 - Jun - 07 Kshs' 000s	30 - Jun -06 Kshs' 000s
Non current assets			
Property plant and equipment	91,822,390	87,357,082	50,662,367
Prepaid leases on land	1,475	1,504	1,533
Intangible assets	303,721	215,664	-
Amounts due from KPLC – deferred debt	701,704	627,072	-
Treasury bonds	3,509,123	3,941,294	2,447,488
	96,338,413	**92,142,616**	**53,111,388**
Current assets			
Inventories	985,013	1,036,841	1,047,906
Trade and other receivables	735,912	1,618,707	1,083,254
Amount due from KPLC	4,677,895	4,129,247	3,290,167
Tax recoverable	73,190	-	189,286
Treasury bonds	427,297	1,200,322	1,657,396
Geothermal development funds	25,551	-	-
Term deposits	30,926	89,794	85,477
Bank and cash balances	3,699,354	1,749,334	4,321,368
	10,655,138	**9,824,245**	**11,674,854**
Current liabilities			
Borrowings due within one year	1,531,116	1,023,189	1,070,516
Geothermal development funds	-	1,443,030	1,852,153
Trade and other payables	5,768,815	3,565,000	2,123,932
Amount due to KPLC	7,471	2,433	4,978
Prepaid operating lease	2,000	2,000	2,000
Dividend payable	615,542	-	-
Tax payable	-	1,198,537	-
	7,924,944	**7,234,189**	**5,053,579**
Net current assets	**2,730,194**	**2,590,056**	**6,621,275**
Net assets	**99,068,607**	**94,732,672**	**59,732,663**
Shareholders funds and liabilities			
Capital and reserves			
Share capital	5,495,904	5,495,904	5,495,904
Reserves	60,650,745	57,262,942	29,793,660
Proposed dividends	1,978,525	879,343	1,209,099
	68,125,174	**63,638,189**	**36,498,663**
Non current liabilities			
Borrowings	19,466,078	16,040,695	17,366,772
Prepaid operating lease	13,000	15,000	17,000
Deferred tax	11,464,355	15,038,788	5,850,228
	30,943,433	**31,094,483**	**23,234,000**
	99,068,607	**94,732,672**	**59,732,663**

The shareholder funds increased by Kshs 34 billion from Kshs 36.5 billion in 2006 to Kshs 68.1 billion as at 30 June 2008. This is attributed to:

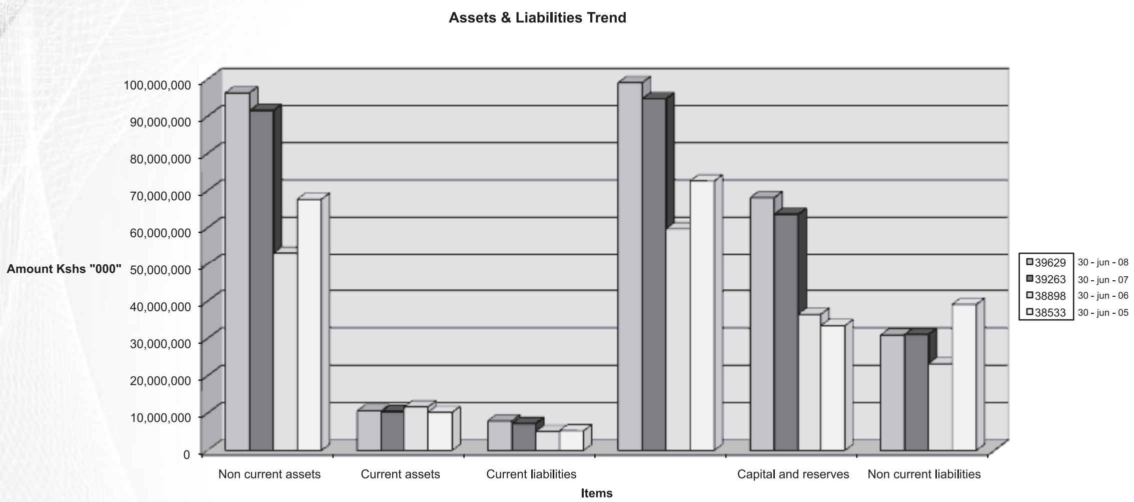
- A revaluation of the Company's assets in 2007, which increased reserves by Kshs 26.8 billion.
- Profitability trend that the Company has maintained over the same period,

As at 30 June 2008, the Company's gearing is calculated at 23% (Kshs 20.96 billion debt), indicating that the Company has a relatively low level of debt, when compared to its target capital structure of 60% debt and 40% equity. Accordingly the Company would be in a position to accommodate further debt of Kshs 81.2 billion without breaching the 60:40 debt/equity target capital structure.

The current asset ratio has marginally declined from 1.45 times at the end 30 June 2007 to 1.34 times as at 30 June 2008. The longest outstanding significant receivable relates to KPLC but KenGen believes that this will be made good by the GoK and as such no impairment has been considered to be necessary.

The chart below provides the trend of significant assets and liabilities of the Company from 2005 to 2008

Figure 8: Assets and liabilities trends



Below is a summary of other indicators:

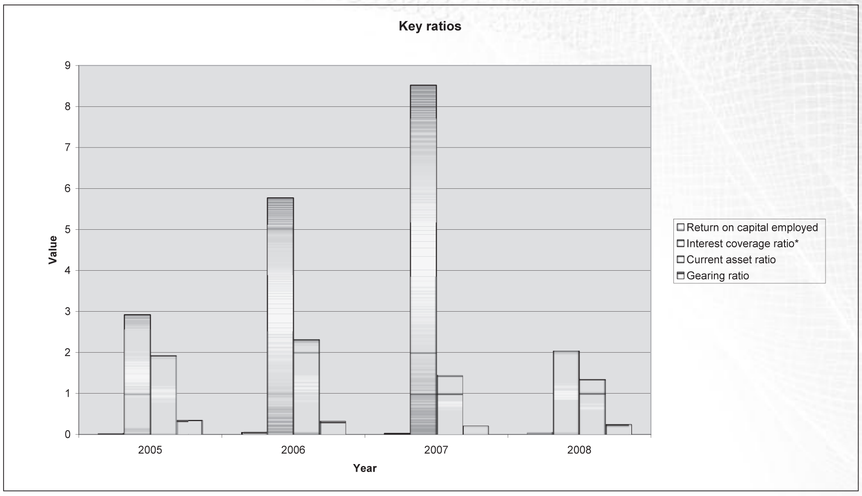
Table 21: Summary of other indicators

	30-Jun-08 Kshs 000	30-Jun-07 Kshs 000	30-Jun-06 Kshs 000	30-Jun-05 Kshs 000
Return on capital employed	7 %	4 %	10 %	5 %
Interest coverage ratio	4.9	7.0	5.9	3.2
Current asset ratio	1.34	1.44	2.31	1.92
Working capital				
Current asset ratio	1.34	1.44	2.31	1.91
Quick ratio	1.22	1.30	2.09	1.77
Cash ratio	0.47	0.24	0.85	0.44
Leverage				
Gearing ratio (D/D+E)	0.24	0.21	0.34	0.38

The return on capital is low because of the low level of tariffs for electricity generated. The interest coverage ratio is satisfactory and above market, indicating a low level of gearing and concessional interest rates. The current asset ratio is satisfactory.

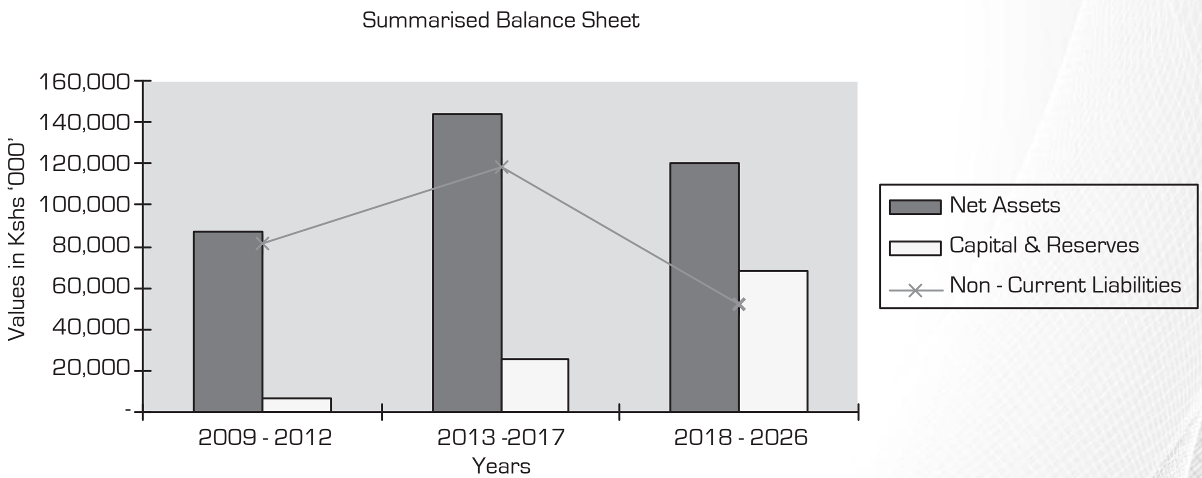
The chart below summarises the key ratios highlighted above from 2005 to 2008.

Figure 9: Key balance sheet ratios



The chart below depicts the summarised balance sheets:

Figure 10: Summarised balance sheets



12.3 Ratio of funds from operations to total debt

The Issuer's ratio of funds from operations to total debt for the period covered by the Accountants Report stood at the ratios given in the table below.

Table 22: Ratio of funds from operations to total debt

KenGen	
Six months ended 31 December 2008	6.7%
Year ended 30 June 2008	32.6%
Year ended 30 June 2007	30.0%
Year ended 30 June 2006	20.3%

Information source: Calculations from cashflow statements in the Accountants Report

These ratios are not uncommon to various industries including the power sector. In general the ratio of funds from operations to total debt is influenced by a number of factors as follows:

- Tenor of the debt: the longer the tenor of the debt the lower the ratio while the shorter the tenor of the debt the higher the ratio; and
- Amount of the debt: the bigger the debt the lower the ratio while the smaller the debt the higher the ratio.

Given the attributes noted above, all providers of debt usually require a borrower to maintain a debt service ratio of 1.2 up to 1.5 depending on the industry and the risk of the borrower.

The ratios of funds from operations to total debt for six power companies that are significantly larger than KenGen are given below.

Table 23: Ratio of funds from operations to total debt for specific energy companies

Company	Country	Installed Capacity MW	Operating cashflow to Total debt
National Grid Plc	United Kingdom	N/A	13%
Scottish Power*	United Kingdom	43,925	8%
Maharastra State Power Generation Co. Ltd	India	9,996	3%
Escom	South Africa	38,744	14%
Electricite de France (EDF)	France	127,100	20%
EON Germany	Germany	74,366	15%

*Financial statements are for the half year

The Issuer has not been and is not in breach of any of its material covenants in respect of any of loans or credit facilities set out in Section 17.3.

13 Projections

In developing the financial projections for KenGen, it has been assumed that the Company will maintain a debt/equity ratio of 60:40. At the existing debt level of Kshs 20.96 billion as at 30 June 2008, the Company can take up additional debt of Kshs 81.2 billion (US$ 1.08 billion) without violating the target capital structure of 60% debt and 40% equity.

However, the Horizon 1 project costs which are yet to be funded amount to US$ 1.69 billion (including the rigs). This exceeds the borrowing headroom by US$ 540 million. Accordingly the financing strategy considers that the Company will raise Kshs 10.2 billion (US$ 135 million) share capital through a rights issue which together with the profits generated between 2009 and 2013 will permit the Company to remain within its capital structure. The debt solutions will comprise of corporate bonds, long term senior debt and vendor finance.

13.1 Tariff Rates

The tariff assumptions are critical to the revenue projection and the following tariffs have been used in these projections.

13.1.1 Tariffs for existing projects

The blended tariff rate for the existing projects which has been agreed with the KPLC and ratified by the ERC calculates at Kshs 2.42/kwh.

13.1.2 Tariff rates for the new Projects

The tariffs calculated for the proposed new projects are yet to be agreed with KPLC and ERC. However, these calculations are based on the tariff calculation policy provided in various publications issued by the ERC. In calculating these tariffs it has been assumed that the company will maintain a target capital structure of 60:40 Debt/Equity ratio; and that the overall return to shareholders for each electricity generation project will be 15% pa. It has been further assumed that any exchange differences will be passed on to KPLC or its successor.

Note that the capacity expansion for the existing hydros will not result in tariff revision. Instead these projects will continue to obtain a tariff rate of Kshs 1.59/kwh.

The projected income statements, balance sheets and cashflow statements assume that KenGen will obtain the tariff rates calculated on the above basis. Due attention should be given to this fact.

13.2 Existing Projects and Horizon 1 Projects – Summarised Projected Income Statements

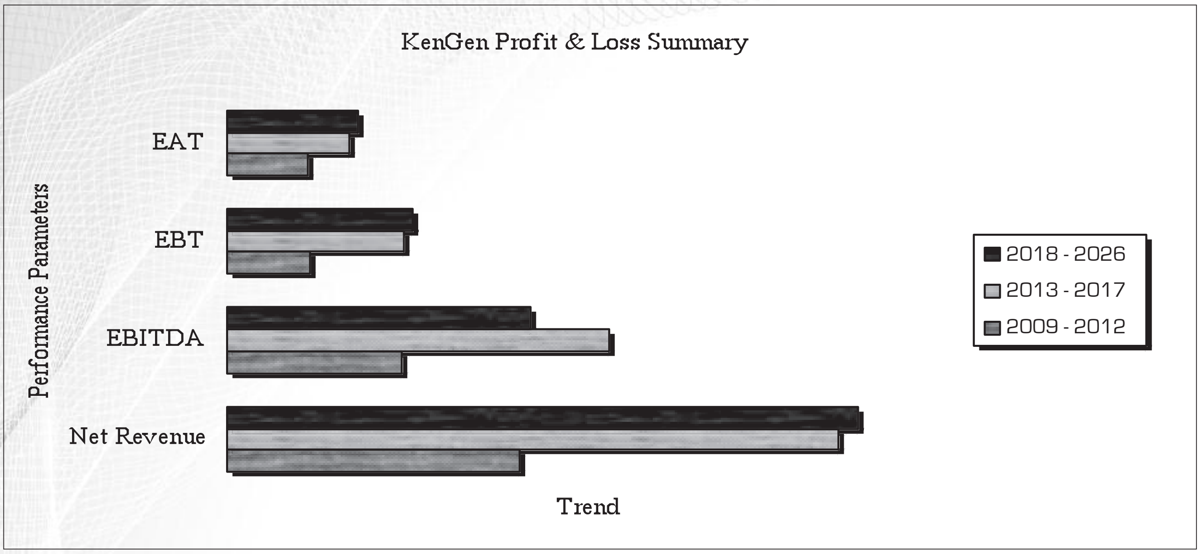
The projected income statements for KenGen assuming that all Horizon 1 projects will be implemented in accordance with plan are summarised below.

Table 24: Projected income statements – Horizon 1 Projects

Amounts in Kshs 'Millions'	2009 -2012	2013 – 2017	2018 -2026	CAGR
Net Revenue	20,177	42,313	43,694	5%
EBITDA	12,130	26,446	21,038	3%
EBT	5,666	12,190	12,875	5%
EAT	5,544	8,533	9,012	3%

The net revenue for the Company is projected to increase from an average of Kshs 20.2 billion (2009-2012) to Kshs 42.3 billion (2013-2017) before stabilising at 43.7 billion (2018-2026). The compounded annual growth rate in revenue and earnings before tax is projected at 5%. The net earnings after tax are, however, projected to grow at a slightly lower rate of 3%. The graph below depicts the revenue and profitability trend of KenGen over the review period:

Figure 11: Revenue and profitability trend – 2009 - 2026



13.3 Existing Projects & Horizon 1 Projects - Summarised Projected Balance Sheets

The projected balance sheets for KenGen assuming that all the Horizon 1 projects will be implemented in accordance with plan are summarised below.

Table 25: Projected balance sheets: 2009 - 2026

Amounts in Kshs ' Millions'	Average 2009- 2012	Average 2013 – 2017	Average 2018 -2026
Assets	173,137	229,189	179,450
Capital & Reserves	80,218	115,666	137,043
Non- Current Liabilities	92,919	113,522	42,407

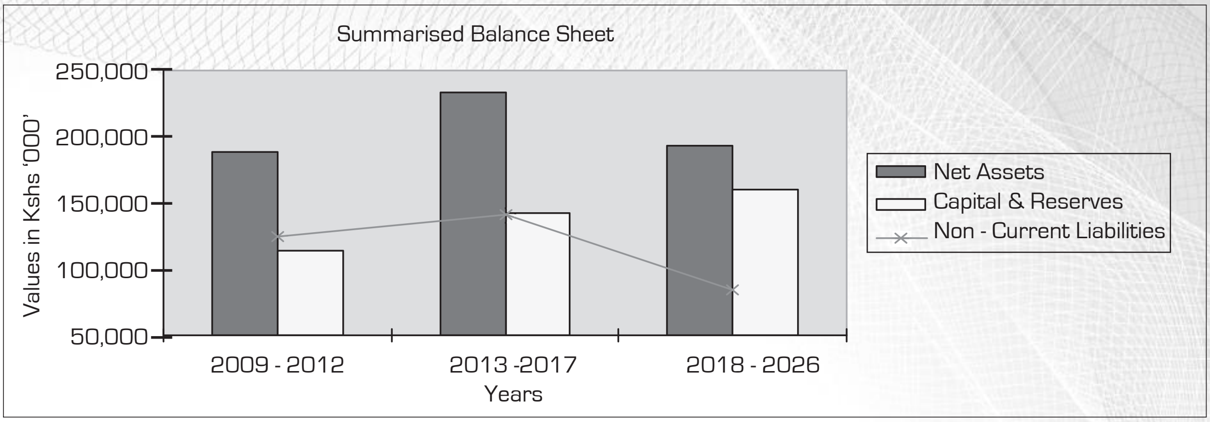
The assets of the Company are expected to increase significantly from an average of Kshs 173.1 billion (2009-2012) to Kshs 229.2 billion (2013-2017) and then reduce to Kshs 179.5 million (2018-2026). The increase in assets from 2012 to 2017 which represents approximately 32% growth will emanate mainly from the commissioning of Horizon 1 projects. The assets are, however, expected to reduce subsequently as a result of depreciation and the decommissioning of some of the existing projects whose useful lives will have come to an end.

Non-current liabilities which principally constitute long-term borrowings are expected to increase from Kshs 92.9 million to Kshs 113.5 million at the initial stages before reducing to an average of Kshs 42.4 million due to loan repayments.

The increase in capital and reserves is principally due to retention of profits and new capital injections between 2010 and 2013.

The summarised balance sheets for the period 2009 – 2026 are depicted in the graph below:

Figure 12: Summarised balance sheets – 2009 - 2026



13.4 Existing Projects & Horizon 1 Projects - Summarised Projected Cash Flow Statements

The projected balance sheets for KenGen assuming that all the Horizon 1 projects will be implemented in accordance with plan are summarised below.

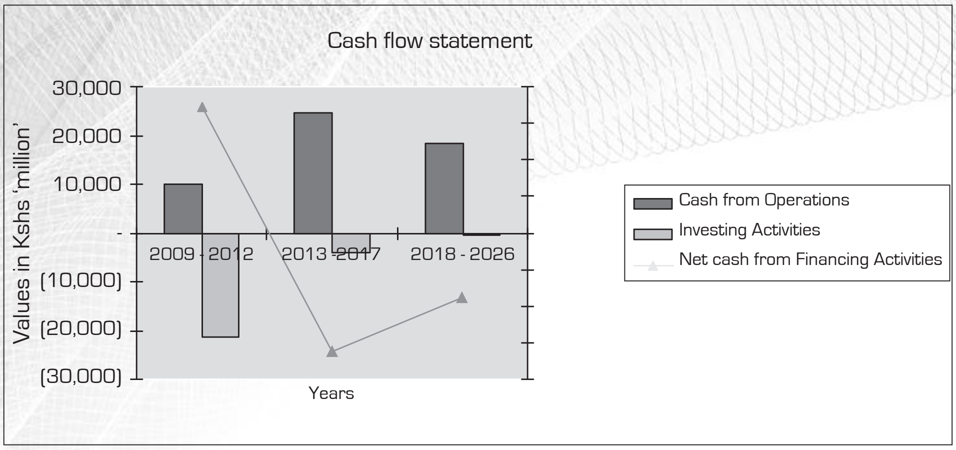
Table 26: Projected balance sheets: 2009 - 2026

Kshs ' Millions'	2009 – 2012	2013 - 2017	2018 – 2026
Cash from Operations	9,915	24,651	18,402
Investing activities	(21,256)	(3,922)	(368)
Net cash from Financing activities	12,171	(21,296)	(13,854)
Increase/Decrease in cash	830	(566)	4,181
Cash at beginning	2,925	4,225	15,665
Cash at end of year	**3,755**	**3,659**	**19,846**

The cashflows of the Company are expected to increase significantly from an average of Kshs 3.755 billion (2009-2012) and Kshs 3.659 billion (2013-2017) to Kshs 19.846 billion (2018-2026). The projected increase in cashflows is driven by increased profitability and reduced debt service commitments.

The summarised projected cashflow statements for the period 2009 – 2026 are depicted in the graph below:

Figure 13: Analysis of cash flows from operations, investing and financing activities 2009- 2026



13.5 Working capital adequacy

In the opinion of the directors of the Issuer, the Company has adequate working capital to meet its present requirements. The Company also has facilities with local commercial banks for bridging any working capital gaps

13.6 Bond Service Obligations - Operation of the Debt Service Reserve Account or Standby Credit Facility

The Directors of the Issuer have resolved that, on or before 14 Business Days before the due date of each Principal and Interest Payment ("Bond Service Obligations") the Issuer will ensure that it either funds a debt service reserve account (which has already been opened with the Fiscal Agent) or arranges for a suitable credit facility, each to be operated as summarized below.

1. Debt Service Reserve Account:

The Issuer shall fund the Bond Service Reserve Account maintained with the Fiscal Agent in order to meet the Bond Service Obligations at least 14 Business Days prior to the due date of any Principal or Interest repayment;

2. Standby Facility

In the event that the Issuer does not have adequate funds from internal sources, then the Issuer will arrange for and use credit facilities from its bankers to meet the Bond Service Obligations. The issuer has already obtained its Board's approval to arrange for such facilities to be in place whenever required. The principal terms of such a facility will be as follows:

Availability: the credit facilities extended will be available on an ongoing basis 14 Business Days before each Principal and Interest Payment Date unless advised to the contrary by the Issuer in writing to the bank nominated to extend this facility.

Instructions: on or the 21st Business Day prior to the relevant Principal and Interest Payment Dates, the Issuer will have assessed its ability to finance from own internal sources the Bond Service Obligations. In the event of any funding shortfall, the Issuer will write to the nominated bank requesting for a credit facility equivalent to such projected shortfall. The Issuer will further instruct the bank to transfer the proceeds from such facility to the account maintained by the Fiscal Agent for purposes of servicing the Bond Service Obligations. The subsequent redemption of the facility will be carried out in accordance with terms to be agreed upon by the Issuer and the lending bank.

Fiscal Agent Obligation to inform the Trustee and the CMA: the Fiscal Agent will on the 14th Business Day prior to the Interest and Principal Payment Dates, confirm to the Trustee and the CMA in writing that the Bond Service Account maintained by the Fiscal Agent has been fully funded for meeting the Issuer's Bond Service Obligations.

14 Risk factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Bonds issued are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bonds issued, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bonds may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

14.1 Risk Factors Relating to the Issuer

Construction risks

By their nature energy generation projects have significant construction risks arising from delayed completion and commissioning, costs escalation during the construction period, logistical challenges and other EPC risks.

While the Issuer intends to execute competitive contracts with EPC that mitigate most of the risks associated with construction, factors beyond the control of the Issuer and the EPC might result in cost overruns to the detriment of the Issuer.

Mitigating factors: the Issuer intends to minimise these risks by recruiting experienced EPCs for all its projects and entering into agreements that require the EPC to pay sufficient liquidated damages in the event of default. The Issuer will also ensure that adequate base studies are carried out before entering into construction projects so that potential issues are known in advance. However, these risks cannot be fully mitigated.

Equipment breakdown risks

Smooth operation of equipment is dependent upon timely supply of spare parts to avoid uninterrupted service. However, factors beyond the control of the Issuer may delay the timely servicing of the equipment there by disrupting electricity generation to the detriment of the Issuer.

Mitigating factors: the Issuer intends to minimise this risk by adopting a stock holding policy that ensures adequate spare parts are held at all times. Further, the Issuer will enter into operational and maintenance contracts with the suppliers of equipment that will assist in minimising the scope for equipment breakdown.

However, these risks cannot be fully mitigated.

Climatic conditions

Some of the Issuer's electricity generation projects such as the hydro sources are significantly affected by weather conditions. For example, dry years significantly reduce the water levels thereby impacting on the energy output and the revenues recorded by the Issuer.

Mitigating factors: the Issuer intends to continue diversifying its energy generation sources to minimise heavy reliance on hydro generating sources that are more prone to weather changes. However, these risks cannot be fully mitigated.

Liguidity Risk and Default Risk in respect of power purchase agreements with KPLC

KenGen relies heavily on the timely payment by KPLC and KPLC meeting its legal obligations under the various power purchase agreements between KenGen and KPLC more particularly described in section 17 of this Information Memorandum (the "KPLC PPAs"), to meet its business and financial obligations on a timely basis. Any default by KPLC unde rthe KPLC PPAs or any future power purchase agreements between KenGen and KPLC will have a direct impact on the issuers' liquidity and businesses.

Mitigating factors: Each of the KPLC PPAs is a valid, legal and enforceable contract between KPLC ad KenGen. Any future PPAs will also be valid , legal and enforceable. If a party breaches such a power purchase agreement, the other party will have the legal remedies that are available under the relevant agreement. With regard to any liquidity risk, KenGen intends to minimise the liquidity risk by entering into power purchase agreements with KPLC that penalise the latter for delays in servicing the Company's invoices. Further, the Issuer's treasury management practises will set limits and guidelines to minimise the Company's exposure to daily calls on its available cash resources from providers of finance, creditors, investments and operations. However, these risks cannot be fully mitigated.

14.2 Risk Factors Relating to the Kenyan Electricity Sector

Regulation of the Kenyan Electricity Sector

Activities in the electricity industry are subject to extensive regulation and supervision by the Electricity Regulatory Commission on behalf of the Government of Kenya. Such activities include licensing, competition, tariff controls, ownership, and other arrangements pertaining to the overall structure of the sector. Changes in laws, regulations or governmental policy, or the interpretation thereof, could affect the business activities and results of operations of the Issuer. In particular, decisions of regulators, including tariff controls, could adversely affect the Issuer's business, financial condition and operations.

For the time being, KPLC is the main transmission company. In this position KPLC acquires bulk power from generators on tariff rates acceptable to it. The tariffs do not necessary pay an appropriate return on capital. Accordingly, the Issuer is exposed to the risk that tariff rates paid by KPLC might not be adequate to compensate it for capital invested.

Mitigating factors: the Issuer intends to minimise the risk by negotiating power purchase agreements with KPLC that pay an adequate return for capital invested. However, this risk cannot be fully mitigated.

Credit Risk

Electricity generators are exposed to credit risk associated with KPLC's risk of default. This risk could impact on the Issuer's ability to meet its obligations as when they fall due. Although the PPA and associated government undertakings guarantee payment of capacity dedicated for electricity generation and energy sold to KPLC, the latter could be unable to make payments on a timely basis and as a consequence impact on the Issuer's ability to honour obligations as and when they fall due.

Mitigating factors: the Issuer intends to minimise this risk by entering into power purchase agreements with KPLC that penalise the latter for delays in servicing the Company's invoices. However, this risk cannot be fully mitigated.

Ability to roll out capacity expansion projects

As the transmission is currently the domain of the KPLC and the Kenya Electricity Transmission Company (KETRACO), the Issuer's ability to expand its electricity generation will in certain respects be influenced by the transmission company ability to provide transmission grids and supporting substations.

Mitigating factors: the Issuer intends to minimise this risk by entering into power purchase agreements with KPLC that permit KenGen where necessary, to develop the transmission network in order to complete its projects and recoup the associated costs under the power purchase agreements. However, these risks cannot be fully mitigated.

Future state of the Transmission sector

The reform of the transmission sector is currently in progress. Once the reform has been completed, all new investments in transmission will become the responsibility of Kenya Electricity Transmission Company (KETRACO). The generators will also be permitted to sell power in bulk to customers. These developments will subject the Issuer to risks and it is difficult to predict how these developments will impact on the Issuer.

Mitigating factors: the Issuer intends to minimise this risk by entering into power purchase agreements with KPLC that permit KenGen to recoup its investment. However, these risks cannot be fully mitigated.

Competition - Geothermal, Thermal, Wind

Intensified competition arising from the liberalisation of the sector will have a downward pressure on tariffs to the disadvantage of the Issuer. Although the Issuer intends to implement projects that are competitively priced, intensified competition affects the Company's ability to pursue its corporate and business strategy uninterrupted. Further, the country has plans of importing electricity from Ethiopia. Due to the low cost of hydropower generation in Ethiopia, the tariff rates of imports from Ethiopia are likely to be more competitive than the Issuer's tariffs, which could adversely impact of the Issuer's ability to negotiate appropriate tariffs with the Transmission Company and ERC.

Tariff rates volatility: the dependence on fossil fuel imports whose prices are beyond the control of the electricity sector in Kenya, subject the overall tariff rates to significant price volatility. This may impact on the demand for electricity and therefore the Issuer's ability to grow revenues as planned.

Mitigating factors: the Issuer intends to minimise this risk by entering into power purchase agreements with KPLC that permit KenGen to recoup its investment. However, this risk cannot be fully mitigated.

Fiscal Policy

If not covered under the Power Purchase Agreement, changes in tax rates including the imposition of new levies by local governments or taxes or excise duties by the Central Government could affect the business activities and results of operations of the electricity industry in general, and as a result the Issuer.

Mitigating factors: the Issuer intends to minimise this risk by entering into power purchase agreements with KPLC that permit KenGen to obtain compensation for adverse movements in tax rates.

14.3 Risks associated with the Kenyan securities market generally

Microeconomic risk

Kenya is a developing country with a small economy (GDP of US$ 29 billion in 2008*). Given a population of 37.2 million, this calculates at a GDP per capita of US$ 778. Due to this low level of GDP per capita, increases in electricity tariff rates or erosion of purchasing power due to inflation, drought, economic recession, and other factors may lower energy consumption and therefore exert downward pressure on tariff rates or demand for electricity.

*Source: National Bureau of Statistics, 2008 Economic Survey

Mitigating factors: the government has proposed several measures which, if satisfactorily pursued will result in macroeconomic improvements that will culminate in the overall reduction of poverty levels and increased levels of income in line with Vision 2030. However, these risks cannot be fully mitigated.

Risks associated with investing in emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than those associated with the more developed markets. Emerging markets are at times subject of significant economic, legal and political risks. Investors should be particularly aware that these markets can be subject to rapid changes, which may render the information contained in this Information Memorandum to be outdated. Historically, the markets for emerging market debt have been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Bonds. There can be no assurance that the market for the Bonds will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Bonds. An overview on the current state of the Kenyan economy is provided in the section entitled "The Kenyan Economy".

Mitigating factors: the government has proposed several measures which, if satisfactorily pursued will result in macroeconomic improvements that will result in increased productivity, high levels of prosperity and a more attractive economy in line with Vision 2030. However, these risks cannot be fully mitigated.

The secondary market generally

Bonds may have no significant established trading market when issued. If a significant market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a significant developed secondary market. This is particularly the case for Bonds that have been structured to meet the investment requirements of limited categories of investors. It should be noted that under current practices of the NSE, bonds can only be traded in minimum notes of Ksh. 50,000. Whereas alternative trading methods for tarding bonds whose outstanding value is less than Ksh. 50,000 could be created under the NSE rules, current practice allows for trading of bonds in lots of Ksh. 50,000 only.

Mitigating factors: the Issuer will pay competitive interest rates on the bonds. Interest on these bonds is also tax exempt in Kenya meaning that the effective interest rate for taxable investors in Kenya will be about 42.8% above the quoted coupon rate. Further these bonds will be traded through an automated system thereby reducing risks associated with their trading, as well as delivery, settlement and registration timelines. These value propositions are likely to improve the competitiveness of the bonds which will help develop an established trading market for these securities. Furthermore, the government's proposals aimed at increasing productivity, achieving higher levels of prosperity and a more attractive economy in line with Vision 2030 could result in improved incomes which will enhance the liquidity of these public bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in Kenya Shillings. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than Kenya Shillings. These include the risk that exchange rates may significantly change (including changes due to devaluation of Kenya Shillings or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Kenya Shillings would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Mitigating factors: the government has proposed several measures which, if satisfactorily pursued will result in macroeconomic improvements that will result in increased productivity, higher levels of prosperity and a more attractive economy in line with Vision 2030. These measures will partly mitigate these risks.

Interest rate risks

Investment in Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Mitigating factors: as in above.

14.4 Factors which are material for the purpose of assessing the market risks associated with Bonds

Bonds may not be a suitable investment for all investors

Each potential investor in any Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the relevant Bonds and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Bonds and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Bonds, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Bonds are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Mitigating factors: the Issuer's information memorandum has recommended that investors should seek professional advice where clarity is required.

14.5 Risks related to the structure of a particular issue of Bonds

Bonds subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Bonds. During any period when the Issuer may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Mitigating factors: the Issuer will only exercise an early redemption option in justifiable or compelling circumstances. Further it is envisioned that the satisfactorily implementation of the government's macroeconomic policies will result in macroeconomic improvements which will support the bonds to retain value in the short, medium and long term.

14.6 Risks related to Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

Modification, waivers and substitution

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Bond Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 11 of the Terms and Conditions of the Bonds.

Mitigating factors: the Issuer has recruited an experienced Trustee for the Bondholders. As a result the Trustee is likely to give good guidance to the investors thereby minimising the risk of sub-optimal decision making by a body of investors.

Change of law

The Terms and Conditions of the Bonds are based on Kenyan law in effect as at the date of issue of the relevant Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Kenyan law or administrative practice after the date of issue of the relevant Bonds.

Mitigating factors: the government's proposals seek to improve the attractiveness of the country as an investment destination. Accordingly, it is expected that any changes to the existing laws will seek to improve the overall business and investment environment.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Bonds are legal investments for it, (2) Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Mitigating factors: the Issuer's information memorandum has recommended that investors should seek professional advice where clarity is required.

15 Taxation

The comments below are of a general nature based on taxation law and practice in Kenya as at the date of this Information Memorandum and are subject to any changes therein. They relate only to the position of persons who are the absolute beneficial owners of the Bonds. They may not apply to certain classes of persons. The following is a general description of certain tax considerations relating to the payments by the Issuer on the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds and so should be treated with appropriate caution. Prospective investors should consult their own professional advisers concerning the possible tax consequences of purchasing, holding and/or selling Bonds and receiving payments of interest, principal and/or other amounts under the Bonds under the applicable laws of their country of citizenship, residence or domicile.

Interest: Payment of interest on the Bonds will be made by the Fiscal Agent in Kenya. Public Bonds are tax exempt. Non-residents will be entitled to the same privilege.

Capital Gains: The capital gains tax was suspended in 1972. Any gains or losses, which accrue on the disposal of the Bonds, will not constitute a chargeable gain or an allowable loss under current Kenyan taxation laws. However, capital gains made by entities that trade in bonds constitute business income of such entities which would be subjected to tax at the existing tax rates.

Stamp Duties: So long as the Bonds are quoted on the Nairobi Stock Exchange, no stamp duty is payable in Kenya on the issue, transfer or redemption of the Bonds.

Tax Treaties: Kenya has entered into double taxation treaties with Denmark, Germany, Sweden, the United Kingdom and Zambia. Treaties with Italy, Uganda and Tanzania have been signed but are not yet in force.

16 Subscription and sale

The Bonds will be sold by the Issuer through Authorised Placing Agents upon the terms and conditions set out in Placing Agreement (the **"Placing Agreement")** dated on or about the date of this Information Memorandum.

The Bonds will be marketed as a public offer of securities to the general public. The Issuer intends to list the Bonds on the Fixed Income Securities Market Segment ("FIMS") of the Nairobi Stock Exchange ("NSE") following issuance.

16.1 Elements of the subscription and sale process

Application Procedure

1. Persons wishing to apply for the Bonds in KenGen must complete the Bond Application Form and, if and where applicable, CDS Securities Account Opening Form (Form 1). Such forms must be completed in accordance with the provisions contained in this Information Memorandum and the instructions set out on the Application Form and physically returned to one of the Authorised Placing Agents listed in Appendix D to this Information Memorandum. In the event of a rejection, for any of the reasons set out in "Rejections Policy" below, any such Bond Application Forms and accompanying cheques shall be returned to the Authorised Placing Agent to which the Bond Application Form was submitted for collection by the relevant Applicant.
2. Copies of this Information Memorandum, with the accompanying Bond Application Form, may be obtained from the Authorised Placing Agents referred to in Appendix D to this Information Memorandum.
3. Save in the case of negligence or wilful default on the part of KenGen, its Advisors or any of the Authorised Placing Agents, neither KenGen, nor any of the advisors nor any of the Authorised Placing Agents shall be under any liability whatsoever should a Bond Application Form not be received by the Closing Date.
4. The minimum application size for a bond is Kshs 100,000 with subsequent multiples of Kshs 100,000.
5. Joint applications may be made. However, joint applications must not be used to defeat the allocation policy. For purpose of the minimum initial allocation under the allocation policy, KenGen reserves the right to treat each joint application as an application by each joint applicant alone.
6. Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.
7. All alterations on the Bond Application Form, other than the deletion of alternatives, must be authenticated by the full signature of the Applicant.
8. KenGen will not directly receive any Bond Application Forms or payments. No receipts will be issued by KenGen for applications and/or remittances.
9. Applications sent by facsimile or by any means other than the methods stipulated in this Information Memorandum will not be accepted.
10. Applications once given are irrevocable and may not be withdrawn once submitted.
11. By signing an Application Form each Applicant:

(i) attests to having read this Information Memorandum, and is deemed to have had notice of all information and representations concerning KenGen contained herein;

(ii) confirms that in making such application it is not relying on any information or representation in relation to KenGen other than that which is contained in this Information Memorandum and it accordingly agrees that no person responsible solely or jointly for this Information Memorandum or any part thereof shall have any liability for such other information or representation;

(iii) accepts to receive any communication from KenGen including notices for meetings, through electronic means as set out in the Terms and Conditions;

(iv) represents and warrants that, except in cases where the applicant is licensed to apply for and hold Bonds for other persons, he applies for the Bonds on his own account, will be the beneficial owner of the Bonds, has not represented himself as a different person in any other application not applied for Bonds under a different name, and is not applying for the Bonds on the instructions of or on behalf of any other person and has not instructed any other person to apply for Bonds as his nominee;

(v) being an applicant who is authorized to apply for Bonds on behalf of other persons, represents and warrants that it is not making multiple applications for itself or any other person, is not applying as nominee of any person whom it knows to have applied under any other name or through any other nominee or person; or for any beneficial owner more than once; and

(vi) acknowledges that KenGen reserves the right to reject any application found to be in contravention of sub paragraphs (iv) and (v) above.

12. Payment by Banker's or Authorised Placing Agent's Cheque: A prospective investor wishing to apply for the Bonds must duly complete and sign the accompanying Bond Application Form and return the same in its entirety accompanied by payment by way of a bankers or Authorised Placing Agent's cheque (as may be applicable) (an "Authorised Cheque") so that it is received by Authorised Placing Agents by the Closing Date. All such Bond Application Forms must be accompanied by an Authorised Cheque for the full amount due for the applicable Bonds.

    Applicants who wish to have Bonds credited to their CDS Account will need to make an additional payment of Kshs 30.00 (to cater for the cost of postage for a CDS Account Statement) to the Authorised Placement Agent. This amount should be remitted to the Receiving Agent separately from the payment for the Bonds for onward remittance to the CDSC. (see paragraph 35 under "CDS Accounts").

    In the event that the CDSC and NSE will not have operationalised the CDS system for bonds by the time the Bonds are listed, then this fee will be paid to the CDSC and credited to the relevant Bondholders Account at the CDSC for meeting the charges of issuing the CDSC statement in future once the CDS system for bonds is operational.

    All Authorised Cheques must be in Kenya Shillings and should be drawn on a licensed bank, a member of the Central Bank of Kenya Clearing House and should be made payable to **"KenGen PIBO-[Form No]"** and be crossed "A/C payee only". In addition, on the following information should be provided on the rear side of each of the accompanying cheques: the (i) name and identification number of the Applicant; ii) mobile phone number; and (iii) Bond application form serial number.

Cash or personal cheques made directly payable by the Receiving Agent or Collecting Bank will not be accepted

13. Payment by bank guarantee: Investors who wish to make payment for the Bonds using bank guarantees, must produce an irrevocable bank guarantee issued by a commercial bank licensed by the Central Bank of Kenya in the format specified and required by KenGen (see Appendix C for the required format). Bank

guarantees will only be accepted when sent by SWIFT to Standard Chartered Bank Limited by the guarantor. Note that this will be a form of payment and the guarantee will be called upon allotment, hence no prior settlements should be made by the investor.

Commercial Banks and Qualified Institutional Investors may produce commitment letters and will be unconditionally liable for payment in respect of the Bonds allocated to it and that such payment will be made in full accordance with the payment procedures set out in this Information Memorandum. The commitment letters must be sent to Standard Chartered Bank Limited.

14. The Authorised Placing Agent receiving a Bond Application Form will (i) check that Applicant has filled in the Application Form appropriately (ii) tear-off the Application Acknowledgement Receipt from the Bond Application Form (iii) sign, stamp and include the application form serial number (iv) return the Acknowledgement Form to the Applicant. As an extra security measure, Applicants are strongly advised to make photocopies of the completed application form and have it stamped by the Authorising Placing Agent as evidence of the transaction.
15. The Authorised Placing Agents and the Receiving Agent are entitled to ask for sufficient identification to verify that the person(s) making the application has authority or capacity to duly complete and sign the Application Form. The Authorised Placing Agents are therefore expected to undertake all "Know Your Client" procedures and activities on nominee accounts as required by law. The Financial Advisor, Arranger and KenGen have the right to demand and be provided with the details of the nominee accounts held by the Authorised Placing Agents to ascertain the eligibility of any application by nominees. In default, KenGen may at its sole discretion treat such an application as invalid.
16. All bank charges incurred in submitting a Bond Application Form, together with requisite funds, are for the account of the Applicant.
17. KenGen reserves the right to present all cheques for payment on receipt, to reject any application not in all respects duly completed, and to accept or reject or scale down any other application in whole or in part. Scaling down will apply only if there is an over-subscription.
18. Corporate investors must provide their tax status (taxable or tax exempt).
19. Every Applicant is required to provide all the information as required in the Bond Application Form, where applicable. Refer to the Bond Application Form and the notes on the reverse for instructions on completion.
20. In the event that the CDSC and NSE have operationalised the CDS system for bonds by the time the Bonds are listed, then the Applicants with CDS accounts will receive their Bonds by way of crediting their CDS Accounts with the allocated number of Bonds. Applicants may elect to receive allocated Bonds in material form (certificates).
21. Applicants who elect to receive Bond Certificates in respect of the applicable number of allocated Bonds will collect them through their Authorised Placing Agent through whom the Bond Application Form was submitted.
22. Applicants will not receive Bonds certificates by mail.
23. By signing a Bond Application Form, an Applicant agrees to the allotment and issue of such number of Bonds (not exceeding the number applied for) as shall be allotted to the Applicant upon the Terms and Conditions of the Information Memorandum and subject to KenGen`s Memorandum and Articles of

Association, and agrees that KenGen may enter the Applicant's name in the register of bondholders of the Company as holder of such Bonds.

24. No interest will be paid on monies received in respect of applications for Bonds, nor will interest be paid on any amounts refunded or indeed deposited at the time of application.
25. Commission at the specified rate of 0.25% (Authorised Placing Agent that are Members of the NSE) and 0.25% (to Authorised Placing Agent that are Commercial Banks) of the Offer price of the Bonds allocated per application (subject to a minimum of Kshs 50 per successful application) will be paid to Authorised Placing Agents made in respect of Bond Application Forms received in respect of the Bonds which bears the stamp of the Authorised Placing Agent. No commission will be paid on Bond Application Forms which bear more than one Authorised Placing Agent stamp or which are rejected.

CDS Account

26. Applicants may opt to receive the Bonds in electronic (i.e. immobilized) form by way of crediting their CDS Accounts with the allocated number of Bonds, though they may opt to receive them in material form (share certificates). In the event that the CDSC and NSE will not have operationalised the CDS system for bonds by the time the Bonds are listed, then Applicants will automatically be issued with Bond Certificates for their Bonds.
27. Trading of the Bonds on the NSE will be under prevailing rules and regulations of the NSE, and if applicable, the CDSC. Once the CDS system for bonds is operational, then trading of the Bonds will only be possible once the Bonds have been immobilised.
28. Therefore, it is recommended that applicants open a CDS Account.
29. To open a CDS Account, individual Applicants will be required to complete a CDS Securities Account Opening Form (Form 1) available from an Authorised Central Depository Agent.
30. If the NSE and CDSC will have operationalised the CDS system for Bonds by the time the Bonds are listed on the NSE, then Applicants who elect to receive allocated Bonds in electronic form by way of crediting their CDS Accounts with the allocated number of Bonds, the Company will authorise the CDSC to credit the CDS Accounts of such Applicants with the applicable number of allocated Bonds in accordance with the instructions set out in the Application Form and on the dates set out above in Section 1.2 (The Bond Offer Timetable).
31. In the case of joint applications, the joint Applicants should have a CDS account in the name of all the joint Applicants, in default of which a share certificate shall be issued in the name of the joint Applicants.
32. Once the CDS system for bonds is operational, then trading of the Bonds will only be possible once the Bonds have been immobilised. In this regard Applicants who elect to receive Bond Certificates in respect of the applicable number of Bonds allocated shall be unable to trade on the NSE until such time as a CDS Account has been opened in the name of the Applicant and the immobilisation of the Bonds has been completed, pursuant to which the Bonds shall be credited to the CDS Account. The Applicant accepts to incur the applicable costs for immobilisation.
33. On acceptance of any application, the Issuer will, as soon as possible after the fulfilment of the Terms and Conditions relating to applications and completion of Bond Application Forms, register the Bonds allocated in the name of the Applicant concerned.

34. Once the CDS system for bonds is operational, KenGen will issue block certificates in the name of the CDSC Nominees Ltd, the nominee holder for CDSC, for the Bonds allotted and transferred in terms of the Offer where the Applicants or Bondholders (as applicable) elect to immobilise their allocated Bonds through their CDS accounts.
35. In accordance with the Central Depository (Regulation of Central Depositories) Regulations, 2004, the cost of postage of the first CDS statement issued on each CDS account following crediting of the Bonds will be borne by the respective Applicant at the rate of Kshs 30.00 per statement. This cost should be included in the banker's cheque or Authorised Placing Agent's cheque by which payment for the Bonds is made. In the event that the CDSC and NSE will not have operationalised the CDS system for bonds by the time the Bonds are listed, then this fee will be paid to the CDSC and credited to the relevant Bondholders Account at the CDSC for meeting the charges of issuing CDSC statement in future once the CDS system for bonds is operational.

Rejections Policy

36. The Authorised Placing Agents will present through the Receiving Agent all Authorised Cheques for payment. Delivery of an Application Form accompanied with payment by way of an Authorised Cheque will constitute a warranty that the cheque will be honoured on first presentation. If any Authorised Cheque accompanying an application is not paid on first presentation and the application has already been accepted in whole or part, such acceptance may at the option of KenGen be rescinded and the Bonds comprised therein may be transferred to another person upon such terms and conditions as KenGen deems fit. The entire proceeds of such transfer shall be retained for the account of KenGen as the case may be, and the original Applicant shall be responsible for any losses and all costs incurred.
37. KenGen shall not be under any liability whatsoever should any Bond Application Form fail to be received by the Receiving Bank Agent or by any Authorised Placing Agent by the Closing Date. In this regard, such Bond Application Forms and accompanying cheques shall be returned to the Authorised Placing Agent where the Application Form was submitted, for collection by the applicable Applicants.
38. Applications shall be rejected if full value is not received. It is not sufficient to merely present a cheque for the full amount payable.
39. Applications may also be rejected for the following reasons:

a) Incorrect CDS Account No (if applicable)

b) Missing or illegible name of primary or joint applicant in any Application Form

c) Missing or illegible identification number, including corporation registration number, or in the case of Kenyan residents (other than citizens), missing or illegible alien registration number

d) Missing or illegible address (either postal or street address)

e) Missing nationality indicators (for primary Applicant in the case of an individual) or missing tax indicators

f) Insufficient documentation is forwarded including missing tax exemption certificate copies or companies that claim to be tax exempt

g) Failure to have payments made by the Authorised Placing Agent

h) Failure to provide complete EFT refund details as required or presence in the application form of alterations that cannot be accepted.

i) Missing or inappropriately signed Bond Application Form including (for manual application only):

a. Primary signature missing from Signature Box 1;

b. Joint signature missing from Signature Box 2 (if applicable);

c. Two directors or a director and company secretary have not signed in the case of corporate application;

j) Number of Bonds does not comply with the rules as set out in the Information Memorandum in respect of the minimum application and subsequent multiples

k) Amount as payment for number of Bonds applied for is less than the correct calculated amount plus the Kshs 30/= CDSC postage fee (if applicable)

l) Authorised Cheque has unauthenticated alterations;

m) Multiple applications. Every applicant shall submit an application for the Bonds under only one set of names and using one identification number. An Applicant who applies in his/her name shall not be entitled to have Bonds applied for him/her by a nominee entity or by other persons on his request or otherwise, or to create joint accounts/applicants for the purpose of multiple applications. A nominee entity must ensure that persons on whose behalf it applies for Bonds directly, are beneficiaries of only one such application by nominee and that such persons are not using nominee applications for purposes of perpetrating more than one application. In the event that an applicant is found to have submitted multiple applications, The Issuer reserves the right to reject any or all of the applications

n) Cheque is not signed, or dated or if amount in figures and words do not tally or the cheques are found to be fraudulent; and

o) In the case of individuals or entities, as the case may be, meeting the requirements described under Pools A and B who are resident or physically located outside Kenya, where such individuals or entities are not eligible to participate in the Offer or receive the Information Memorandum under the laws of their residency or location and the offer to such individuals or entities does not comply with the selling restrictions set out above under "Selling Restrictions" above.

The application monies in respect of any rejected application shall be returned at the time set out for refunds.

Refunds Policy

40. Refunds

(a) Refunds will ONLY be made through Electronic Funds Transfer (EFT) to an Applicant's bank account.

(b) EFTs will only be credited to accounts held with commercial banks. Applicants are urged to verify that their bank account details are correctly stated on the Application form. Applicants are also required to check for refunds with their banks.

The Receiving Agent will follow up rejected EFTs on a regular basis. Where an EFT has been rejected, the refund will be defaulted to cheque payments as outlined below.

(c) Where an EFT is rejected, the refunds will be paid to Applicants through bankers cheques drawn in favour of the Applicants as evidenced in the Application Forms and will be delivered to the Authorised Placing Agents for onward collection by the concerned Applicants. Applicants are required to collect their refunds immediately upon release to the Authorised Placing Agent. No refund cheques will be sent by mail.

41. Selling Restrictions

General: Each Bond participant has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds possesses or distributes this Information Memorandum and will obtain any consent, approval or permission required by it for, the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Bond Participants shall have any responsibility for it.

None of the Issuer or the Bond Participants represents that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale other than in Kenya.

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The sale or transfer of Bonds by Bondholders will be subject to the rules and regulations of the NSE, the provisions of the Agency Agreement, and such other applicable laws and regulations.

43 Allocation policy

The Issuer wishes to achieve a balanced distribution of the Bonds between individual members of the public and institutions. In this respect, The Issuer has determined that the Bonds shall be allocated in accordance with the following allocation policy:

Table 27: Illustration of the Allocation Policy

		Without Greenshoe		With Greenshoe	
Pool	**Category**	**% of total**	**Value of Bonds Kshs billion**	**% of total**	**Value of Bonds Kshs billion**
A	Investors who are not Institutional or Foreign Investors (Retail Investors)	20%	3.0	20%	5.0
B	Institutional and Foreign Investors	80%	12.0	80%	20.0
	Totals	**100%**	**15.0**	**100%**	**25.0***

Note: assumes that the Greenshoe Option will amount to Kshs 10 billion.*

1. Minimum Application: The minimum application size for a bond is Kshs 100,000.
2. Exact Subscription. In the event that the total number of Bonds applied for by Applicants in any of the categories equates to the respective total number of Bonds reserved for that category, then all valid applications will be allocated in full as per the number of Bonds applied for by such Applicants subject to the Regulatory Restrictions above.
3. Under Subscription. Subject to the regulatory restrictions above, in the event that the total number of Bonds applied for by Applicants in a particular category is below the total number of Bonds reserved for that category, the following will apply:

a) All valid applications received from Applicants will be allocated in full as per the number of Bonds applied for taking into account the minimum number of Bonds that may be applied for by any Applicant in each category.

b) The balance of Bonds will be available for allocation to Applicants in the other category which is over-subscribed, and such excess Bonds will be aggregated and the pool of excess Bonds available will be allocated pro-rata to the excess Bonds applied for in the other category.

4. Over Subscription. Subject to the regulatory restrictions above and No 3 above as regards the minimum allocation, applicants in any over-subscribed category may receive fewer Bonds than the number applied for. Applicants will be allocated Kshs 100,000 Bonds in the first instance on a pro rata basis, until all Bonds in the category, plus remaining unallocated balances from the other categories, if any, are fully exhausted.
5. In the event that the results of the subscription render the above policy impractical then an amendment to the allocation policy shall be made with the approval of the CMA and such amendment will be announced within twenty four hours of the grant of such approval by publication in the print media.
6. In the event of any doubt whatsoever as to the eligibility of an Applicant in a particular category, the decision of the Issuer will be final.
7. The Issuer will announce the manner in which the Bonds have been allocated among the Applicants in the above two categories ('the Allocation Results') on the date specified for Announcement of Allocation Results.
8. The Issuer reserve the right to refuse to allocate Bonds to any investor it deems to be inappropriate for any reason.

16.2 Overview of the Nairobi Stock Exchange and Bond Trading

The KenGen Infra Bond will be listed on the NSE which is over 50 years old. The NSE is a fully automated market with a functioning immobilized Central Depository System (CDS) that is directly linked to the Automated Trading System (ATS) via a wide-area network architecture. Currently, the CDS and ATS are used for trading of equities only. The CDS is owned and managed by the CDSC while the ATS is owned and managed by the NSE.

NSE is situated on the 1st Floor, Nation Centre, Kimathi Street, Tel: 254-20-28310000, email: info@nse.co.ke and website, www.nse.co.ke while CDSC is situated on the 11th Floor, Nation Centre, Kimathi Street, Tel: 254-20-2229407, email: cdsckenya@cdsckenya.com.

There are two indices produced by the NSE on a daily basis that track the market – the NSE 20 Share Index (N20SI) and the NSE All Share Index (NASI). There is no bond index but the NSE does publish a yield curve.

NSE has 54 listed companies (6 of which have been suspended from trading) which at its business peak in 2008 had a market capitalization of Kshs 1.2 trillion. The equity market capitalisation as of mid June 2009 was Kshs 740 billion. The daily movement of the share price is restricted to 10%, except when there is a material announcement.

There are 73 bonds issued by the Government of Kenya that are currently listed on the NSE. There are 8 issuers of corporate bonds with a total of 11 bonds/notes listed on the NSE. The bond market capitalisation as of mid June 2009 was Kshs 326 billion.

The Members of the NSE comprise of 12 investment banks and 7 stockbrokers, making a total of 19 trading intermediaries.

The NSE, CDSC and the Members of the NSE are all licensees of the CMA, the regulator of the capital markets in Kenya.

Bond trading has not been automated but physical recording takes place on the appropriate board at the floor at the NSE followed by an exchange of physical documents. Trading is Delivery versus Payment (DVP) on a rolling T+3 system. Trading hours are from 9:00 a.m. to 3:00 p.m. from Monday to Friday except on gazetted public holidays.

In 2008, approximately Kshs 100 billion of bonds were traded on the NSE. This is almost equal to the value traded in equities.

It is expected that the NSE and CDSC will soon allow for bonds to be held in the CDS and traded using the ATS. When the relevant infrastructure and framework for this are in place, it is expected that the KenGen Infra Bond 2019 will be the first bond to trade under a fully automated environment in both CDSC and Automated Trading System (ATS), in a manner similar to share trading.

In the case of payments of interest or principal, the Registrar will close the Register 15 calendar days before the relevant date for payment or such other date as may be agreed between the Bond Trustee (on behalf of the Bondholders), the Issuer and the Registrar. All purchases made during the 15 day window will be ex-interest and principal repayment due on the next payment date.

17 Legal information and contracts

17.1 Principal objects

KenGen's principal objects which are contained in its Memorandum of Association at clauses 4 (1-5) are:

- To carry on the business of the purchase, generation, storage, distribution, supply and sale of electrical energy in all its branches and for all purposes and in particular to construct, lay down, erect, establish, fix, carry out, maintain, work and use all necessary mains, cables, wires, lines, accumulators, lamps and other works and to purchase, generate, accumulate, store, transform, distribute, supply, sell and use electrical energy for any purpose and to manufacture and sell by-products.
- To enter into or adopt and carry into effect any agreement or agreements or arrangement or arrangements for the supply of electrical energy in bulk to or by the Company.
- To acquire (by purchase or otherwise) contract and equip and to enter into or adopt and carry into effect such agreements as may be thought necessary or proper for the acquisition (by purchase or otherwise), construction and equipment of an electricity generating station or electricity generating stations complete with all necessary building, machinery, plant, mains, apparatus, roads, ways tramways, railways, siding, bridges, reservoirs, watercourses, piers, wharves, factories, warehouses, workshops and other works (including public works) of all kinds and to construct and equip and to enter into adopt and carry into effect such agreement as may be thought necessary or proper for the acquisition (by purchase or otherwise), construction and equipment of any extensions and additions or the effecting of any alterations to such generating station or stations and works, and to operate and maintain or make agreements or arrangements for the operation and maintenance of any generating station or works referred to in that sub-clause.
- To enter into or adopt and carry rate effect any agreement or agreements with authorised distributors or others in connection with any generating station or stations constructed, equipped or extended or proposed to be constructed, equipped or extended, by the Company as may be though necessary or proper, and in particular to enter into an agreement or agreements for and to grant a lease or leases of any such generating station or stations and any extensions thereof, and of any other works of the Company to such company or person on such terms and for such period or periods as may from time to time be agreed.
- To enter into contracts in relation to, and to construct, erect, execute, carry out, equip, acquire, own, import, make, repair, maintain, develop, administer, manage or control public works of every description including

bridges, engines, machinery, gas works, electric works, water works, drainage works, buildings and conveniences of all kinds, either alone or jointly with other companies or persons.

17.2 Provisions of the Articles Relating To Borrowing

The following sets out certain provisions of the Articles of Association relating to borrowing:

Object No15 of the Memorandum of Association allows KenGen: "To borrow or raise or secure the payment of money in such manner as the Company thinks fit and to secure the same or the repayment or performance of any debt liability contract guarantee or other engagement incurred or to be entered into by the Company in any way and in particular by any legal or equitable mortgage or charge upon any of the Company's property or by the issue of debentures charged upon any of the Company's property present and future (including its uncalled capital) or by the issue of any security whether registrable or not; and to purchase; redeem and pay off any such securities."

Article 95: The Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock, legal and equitable mortgages and charges and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the Company or any third party.

Article 96: The Directors shall duly comply with the provisions of the Statutes, and in particular with the provisions in regard to the registration of the particulars of mortgages and charges affecting the property of the Company, or created by it, and to keeping a register of the Directors and Secretaries, and to sending to the Registrar of Companies an annual list of members, and a summary of particulars relating thereto, and notice of any consolidation or increase of share capital, or conversion of shares into stock, and copies of special resolutions, and a copy of the register of Directors and notification of any change therein.

17.3 Material Agreements

The following paragraphs outline brief details of Material Contracts to which KenGen is a party.

17.3.1 Onerous Covenants and Default

KenGen has no material contracts with third parties which have any onerous covenants. KenGen is not in default of any terms of any material contracts listed below.

17.3.2 Power Purchase Agreements

Power Purchase Agreement datedd 4th June 2009 between KenGen and KPLC in respect of the Seven Forks, Turkwell, Tana (Existing), Sondu Miriu, Kiambere (Upgraded) and Tana (Redeveloped) Hydro Power Generating Plants

This agreement is for the sale by KenGen to KPLC of electrical energy from the above Power Plants. Under this agreement, KPLC is required to purchase and pay for the electrical energy delivered to KPLC as well as the Available Capacity (as defined in the agreement) in respect of the above Power Plants.

KPLC shall make the following energy and capacity payments to KenGen:

- From 1st July 2008 to 30th June 2009 – KPLC shall pay the sum of Kshs. 11,800,000,000 (being payments for electrical energy delivered and capacity deemed to have been made available in respect of the above power plants and Olkaria I Plant, Olkaria II Plant, Kipevu Diesel Power Plant, Kipevu Gas Turbine

Plant I, Nairobi South Gas Turbine, Wanjii, Gogo, Sosiani, Ndula, Sagana, Mesco, Lamu, Garissa and Ngong Wind Power Plants) provided that the total net electrical output delivered by KenGen during this period shall not be less than 4,456 GWh. In the event that the total net electrical output delivered by KenGen during this period is less than 4,456 GWh, the total amount payable shall be adjusted by a factor of KShs. 2.42/kWh for every kWh below 4,456GWh.

- With effect from 1st July 2009 – KPLC shall pay energy charges from the electrical energy delivered in accordance with the formula set out in Part A of Schedule 4 to the agreement.

- With effect from 1st July 2009 – KPLC shall pay for the Contracted Capacity (as defined in the agreement) in accordance with the formula set out in Part B of Schedule 4 to the agreement, provided that the relevant power plants pass the tests prescribed in the agreement.

This agreement is for a term of 20 years from 1st July 2008 unless earlier terminated in accordance with the terms of this agreement. The agreement may be terminated by either Party giving to the other 24 months prior written notice. The term may be extended by mutual agreement of the Parties at least 12 months prior to its expiry.

This agreement may be reviewed by mutual agreement of the Parties provided that such review is in writing and is signed by both Parties. The agreement provides that it shall be reviewed simultaneously with KPLC's Retail Tariffs on or before 1st July, 2011 to address various issues listed in Annex 3 of Schedule 7 to the agreement and that the amended agreement shall become effective only upon being approved by the Energy Regulatory Commission (ERC) and signed by both Parties.

This agreement is to be governed by Kenyan law and disputes shall be resolved through arbitration in accordance with the Arbitration Act, 1995.

Power Purchase Agreement dated 4th June 2009 between KenGen and KPLC in respect of Isolated Thermal Small Hydro and Wind Power Generating Plants

This agreement is for the sale by KenGen to KPLC of electrical energy from Wanjii, Gogo, Sosiani, Ndula, Sagana, Mesco, Lamu, Garissa and Ngong Wind Power Plants. Under this agreement, KPLC is required to purchase and pay for the electrical energy delivered to KPLC from the above Power Plants in accordance with the agreement.

KPLC shall make the following energy payments to KenGen:

- From 1st July 2008 to 30th June 2009 – Parties have agreed that the energy payments to be made for electrical energy delivered under this agreement for the said period are included in the amounts payable by KPLC under clause 8.6A of the Power Purchase Agreement between the Parties in respect of the Seven Forks, Turkwell, Tana (Existing), Sondu Miriu, Kiambere (Upgraded) and Tana (Redeveloped) Hydro Power Generating Plants (see above).
- With effect from 1st July 2009 – KPLC shall pay energy charges from the electrical energy delivered in accordance with the formula set out in Part A of Schedule 4 to the agreement.

KPLC shall also pay fuel charges in respect of the net electrical output from the above power plants as ascertained in accordance with Part C of Schedule 4 to the Agreement with effect from the commencement date.

This agreement is for a term of 15 years from 1st July 2009 unless earlier terminated in accordance with the terms of this agreement. The agreement may be terminated by either Party giving to the other 24 months prior written notice. The term may be extended by mutual agreement of the Parties at least 12 months prior to its expiry.

This agreement may be reviewed by mutual agreement of the Parties provided that such review is in writing and is signed by both Parties. The agreement provides that it shall be reviewed simultaneously with KPLC's Retail Tariffs on or before 1st July, 2011 to address various issues listed in Annex 2 of Schedule 7 of the agreement and that the amended agreement shall become effective only upon being approved by the Energy Regulatory Commission (ERC) and signed by both Parties.

This agreement is to be governed by Kenyan law and disputes shall be resolved through arbitration in accordance with the Arbitration Act, 1995.

Power Purchase Agreement dated 4th June 2009 between KenGen and KPLC in respect of the Kipevu Diesel Power Generating Plant

This agreement is for the sale by KenGen to KPLC of electrical energy from the Kipevu Diesel Power Plant. Under this agreement, KPLC is required to purchase and pay for the electrical energy delivered to KPLC as well as the Available Capacity (as defined in the agreement) in respect of the Kipevu Diesel Power Plant.

KPLC shall make the following energy and capacity payments to KenGen:

- From 1st July 2008 to 30th June 2009 – Parties have agreed that the energy and capacity payments to be made for electrical energy delivered and capacity deemed to have been made available under this agreement for the said period are included in the amounts payable by KPLC under clause 8.6A of the Power Purchase Agreement between the Parties in respect of the Seven Forks, Turkwell, Tana (Existing), Sondu Miriu, Kiambere (Upgraded) and Tana (Redeveloped) Hydro Power Generating Plants (see above).
- With effect from 1st July 2009 – KPLC shall pay energy charges from the electrical energy delivered in accordance with the formula set out in Part A of Schedule 4 to the agreement.
- With effect from 1st July 2009 - KPLC shall pay for the Contracted Capacity (as defined in the agreement) in accordance with the formula set out in Part C of Schedule 4 to the agreement, provided that the Power Plant passes the tests prescribed in the agreement.

KPLC shall also pay fuel charges in respect of the net electrical output from the Kipevu Diesel Power Plant as ascertained in accordance with Part B of Schedule 4 to the Agreement with effect from the commencement date.

This agreement is for a term of 15 years from 1st July 2008 unless earlier terminated in accordance with the terms of this agreement. The agreement may be terminated by either Party giving to the other 24 months prior written notice. The term may be extended by mutual agreement of the Parties at least 12 months prior to its expiry.

This agreement may be reviewed by mutual agreement of the Parties provided that such review is in writing and is signed by both Parties. The agreement provides that it shall be reviewed simultaneously with KPLC's Retail Tariffs on or before 1st July, 2011 to address various issues listed in Annex 2 of Schedule 7 to the agreement and that the amended agreement shall become effective only upon being approved by the Energy Regulatory Commission (ERC) and signed by both Parties.

This agreement is to be governed by Kenyan law and disputes shall be resolved through arbitration in accordance with the Arbitration Act, 1995.

Power Purchase Agreement dated 4th June 2009 between KenGen and KPLC in respect of the Kipevu Gas Turbine I Power Generating Plant

This agreement is for the sale by KenGen to KPLC of electrical energy from the Kipevu Gas Turbine I Power Plant. Under this agreement, KPLC is required to purchase and pay for the electrical energy delivered to KPLC as well as the Available Capacity (as defined in the agreement) in respect of the Kipevu Gas Turbine I Power Plant.

KPLC shall make the following energy and capacity payments to KenGen:

- From 1st July 2008 to 30th June 2009 – Parties have agreed that the energy and capacity payments to be made for electrical energy delivered and capacity deemed to have been made available under this agreement for the said period are included in the amounts payable by KPLC under clause 8.6A of the Power Purchase Agreement between the Parties in respect of the Seven Forks, Turkwell, Tana (Existing), Sondu Miriu, Kiambere (Upgraded) and Tana (Redeveloped) Hydro Power Generating Plants (see above).
- With effect from 1st July 2009 – KPLC shall pay energy charges from the electrical energy delivered in accordance with the formula set out in Part A of Schedule 4 to the agreement.
- With effect from 1st July 2009 - KPLC shall pay for the Contracted Capacity (as defined in the agreement) in accordance with the formula set out in Part C of Schedule 4 to the agreement, provided that the Power Plant passes the tests prescribed in the agreement.

KPLC shall also pay fuel charges in respect of the net electrical output from the Kipevu Gas Turbine I Power Plant as ascertained in accordance with Part B of Schedule 4 to the Agreement with effect from the commencement date.

This agreement is for a term of 5 years from 1st July 2008 unless earlier terminated in accordance with the terms of this agreement. The agreement may be terminated by either Party giving to the other 24 months prior written notice. The term may be extended by mutual agreement of the Parties at least 12 months prior to its expiry.

This agreement may be reviewed by mutual agreement of the Parties provided that such review is in writing and is signed by both Parties. The agreement provides that it shall be reviewed simultaneously with KPLC's Retail Tariffs on or before 1st July, 2011 to address various issues listed in Annex 3 of Schedule 7 of the agreement and that the amended agreement shall become effective only upon being approved by the Energy Regulatory Commission (ERC) and signed by both Parties.

This agreement is to be governed by Kenyan law and disputes shall be resolved through arbitration in accordance with the Arbitration Act, 1995.

Power Purchase Agreement dated 4th June 2009 between KenGen and KPLC in respect of the Olkaria I and II Power Generating Plants

This agreement is for the sale by KenGen to KPLC of electrical energy from the above Power Plants. Under this agreement, KPLC is required to purchase and pay for the electrical energy delivered to KPLC as well as the Available Capacity (as defined in the agreement) in respect of the above Power Plants.

KPLC shall make the following energy and capacity payments to KenGen:

- From 1st July 2008 to 30th June 2009 – Parties have agreed that the energy and capacity payments to be made for electrical energy delivered and capacity deemed to have been made available under this agreement for the said period are included in the amounts payable by KPLC under clause 8.6A of the Power Purchase Agreement between the Parties in respect of the Seven Forks, Turkwell, Tana (Existing), Sondu Miriu, Kiambere (Upgraded) and Tana (Redeveloped) Hydro Power Generating Plants (see above).

- With effect from 1st July 2009 – KPLC shall pay energy charges from the electrical energy delivered in accordance with the formula set out in Part A of Schedule 4 to the agreement.
- With effect from 1st July 2009 - KPLC shall pay for the Contracted Capacity (as defined in the agreement) at full capacity charge rates (with adjustments reflecting availability) in accordance with the formula set out in Part B of Schedule 4 to the agreement, provided that the Power Plants pass the tests prescribed in the agreement.

This agreement is for a term of 4 years from 1st July 2008 in respect of Olkaria I Plant and 20 years from 1st July 2008 in respect of Olkaria II Plant unless earlier terminated in accordance with the terms of this agreement. The agreement may be terminated by either Party giving to the other 24 months prior written notice. The term may be extended by mutual agreement of the Parties at least 12 months prior to its expiry.

This agreement may be reviewed by mutual agreement of the Parties provided that such review is in writing and is signed by both Parties. The agreement provides that it shall be reviewed simultaneously with KPLC's Retail Tariffs on or before 1st July, 2011 to address various issues listed in Annex 3 of Schedule 7 of the agreement and that the amended agreement shall become effective only upon being approved by the Energy Regulatory Commission (ERC) and signed by both Parties.

This agreement is to be governed by Kenyan law and disputes shall be resolved through arbitration in accordance with the Arbitration Act, 1995

Emergency Power Purchase Agreement dated 18th August 2009 between KenGen and Aggreko International Projects Limited ("Aggreko")

This agreement is for the sale by Aggreko International Projects Ltd to KenGen of emergency electrical energy from the Embakasi (80MW) and Naivasha (60MW) for a period of one year from the time the relevant plants are commissioned.

Aggreko will finance the two power plants in their entirety and as such KenGen will not incur any capital costs in this respect. KenGen will earn revenue equivalent to 10% of the total energy generated by Aggrekko, at an energy charge of Kshs 1.76/kWh, as a consideration for managing the emergency power.

Contract for the supply of Emergency Power of 100 MW at Embakasi

Contract for the Supply of Emergency Power Capacity of 100MW at Embakasi: KenGen entered into a contract with Aggreko International Projects Ltd (Aggreko) with the supply of 100MW electrical capacity on 31st March 2006 for a term of twelve (12) months from the commencement date as defined in the contract and made provision for a possible extension. Subsequently, it was agreed that 40MW be moved to Eldoret. The Charge Rates for the first year were USD $ 21.285/kW per month for the Embakasi Plant and USD $ 25/kW per month for the Eldoret Plant, the actual payments are subject to the computations based on the formula provided in the general terms and conditions of the contract. Following various amendments, the contracts were extended for a period of twenty-four (24) months ending 8th December 2009 at the following rates – Embakasi 60 MW at USD $ 19.50/kW per month and Eldoret 40 MW at USD $ 22.25/kW per month. Following an additional amendment, the Contracts will expire on 31st December 2009.

Contract for the Supply of Additional Emergency Power Capacity of 50 MW at Embakasi: KenGen entered into a contract for supply of an additional 50 MW electrical capacity on 24th January 2008 for a term of twelve (12) months from the commencement date as defined in the contract. The Contract was scheduled to expire on 6th

June 2009 but was extended for an additional period of six months ending 31st December 2009. The Charge Rates for the first year were USD $ 24.50/kW per month and USD $ 21.93 /kW per month for the following three months and USD $ 20.5/kW per month for the last three months.

17.3.3 Contracts relating to transfer of assets and liabilities pursuant to Power Sector reform by GoK

Agreement dated 29 June 2000 between KPLC and KenGen in respect of transfer of assets and liabilities from KPLC to KenGen. Pursuant to this Agreement, KPLC agreed to transfer various properties and assets to KenGen. This Agreement has taken effect, and KenGen occupies the properties to which it was entitled thereunder, and KPLC has taken possession of the assets and properties it was entitled to under this Agreement. However, the transfers of some properties to KenGen are yet to be perfected.

Agreement dated 29 June 2000 between TARDA and KenGen. This agreement relates to assets of Kiambere and Masinga Dams facilities transferred by TARDA to KenGen (including land) Whilst KenGen has taken possession of the properties under this Agreement, the titles of the properties are yet to be adjudicated and the titles issued.

Agreement dated 29 June 2000 between GoK and KenGen. This agreement relates to assets of Turkwel Dam facility transferred by GoK to KenGen (including land). Whilst KenGen has taken possession of the properties under this Agreement, the titles of the properties are yet to be adjudicated and the titles issued.

17.3.4 Related Party Agreements

Subsidiary Loan Agreement dated 7 April 2008 between KenGen and GoK – onward lending from KBC Bank NV.

- Loan Amount: 11,314,681 Euros
- Purpose: to finance the Wind Power Generation Turbine Project
- Utilised Amount: 3,000,000.00 Euros
- Interest Rate: 1.5% per annum
- Duration: Under the Agreement, KenGen has agreed to repay GoK the principal amount of the Subsidiary Loan in 29 equal consecutive semi annual instalments on the 30th day of December and the 30th day of June each year commencing on 30th December 2010 and interest thereon in 29 equal consecutive semi annual instalments on the 30th day of December and the 30th day of June each year commencing on 30th December 2008.
- Outstanding Amount as at 19th March 2009: 3,000,000.00 Euros
- Security: None
- Law and Jurisdiction: Kenyan law and dispute resolution by the Minister of Finance, whose decision shall be final.

Subsidiary Loan Agreement dated 24 September 2004 between KenGen and GoK – Onward lending from the International Development Association.

- Loan Amount: SDR 18,570,000
- Purpose: to finance the Energy Sector Recovery Project
- Utilised Amount USD 5,343,313.00
- Interest Rate: 4.5% per annum
- Duration: Under the Agreement, KenGen has agreed to repay GoK the principal amount of the Subsidiary Loan in 30 equal consecutive semi annual instalments on the 1st day of September and the 1st day of March each year commencing on 1st September 2009 and the interest thereon in 30 equal consecutive semi annual instalments on the 1st day of September and the 1st day of March each year commencing on 1st September 2005.

- Outstanding Amount as at 19th March 2009: USD 5,343,313.00
- Security: None
- Law and Jurisdiction: Kenyan law and dispute resolution by the Minister of Finance, whose decision shall be final.

Subsidiary Loan Agreement dated 30th December 1999 between KenGen and GoK for steamfield Olkaria II Geothermal Power Project – onward lending from Kredistanstalt Fur Wiederaufbau, Frankfurt am Main

- Loan Amount: DM 25,000,000
- Purpose: Financing of the equipment relating to steamfield development of OlKaria II Power Plant
- Utilised Amount: 11,918,975.00 Euros
- Interest Rate: 7.7% per annum
- Duration: Grace Period - 5 Years: Amortisation to start from 2004 to 2019.
- Outstanding Amount as at 19th March 2009: 1,113,423.00 Euros
- Security: None
- Law and Jurisdiction: Kenyan law and dispute resolution by the Minister of Finance, whose decision shall be final.

Subsidiary Loan Agreement dated 9th June 1998 between KenGen and GoK for Olkaria II – onward lending from the International Development Association:

- Loan Amount: SDR 66,530,000
- Purpose: to finance the Energy Sector Recovery Project
- Utilised Amount: USD 102,815,575.00
- Interest Rate: 7.7% per annum
- Duration: Grace Period - 5 Years; Amortisation to start from 2003 to 2018.
- Outstanding Amount as at 19th March 2009: USD 72,971,613.00
- Security: None
- Law and Jurisdiction: Kenyan law and dispute resolution by the Minister of Finance, whose decision shall be final

17.3.5 Performance Contract with GoK

The Board of Directors of KenGen have entered into a performance contract with GoK in accordance with the provisions of the State Corporations (Performance Contracting) Regulations, 2004. The aim of this contract is to clearly define the working relationship between the GoK and KenGen. Under this contract the Directors have committed to:

- reviewing and implementing KenGen's strategic plan and ensuring that it is linked to the National Policy documents such as Vision 2030, Medium- Term plans and others;
- identifying performance targets;
- assigning weights to performance indicators;
- negotiating performance targets and signing performance contracts;
- ensuring achievement of performance targets; and
- preparing employees in the organization for the desired changes in working styles, attitudes and work ethics.

GoK has in turn undertaken to acknowledge the board's correspondences within 7 working days and grant or decline approvals within 60 days from the time of receipt.

The board is required to provide quarterly and annual performance reports in the prescribed format as per the requirements of the Legal Notice No. 93 of 2004 and performance contracting guidelines.

This contract is for duration of 12 months from 1 July 2008 to 30 June 2009.

The contract was executed by Ho. Titus Mbathi, Eng. Musa Ndeto and Mr. Patrick Nyoike on behalf of KenGen's Board on 30th June 2008 and by the Permanent Secretary, Ministry of Finance on 31st July 2008.

17.3.6 Loan/Finance Agreements

Facility Agreement dated 2nd April 2009 between KenGen and Agence France de Development ("AFD") for Olkaria II extension:

- Loan Amount: 20,000,000 Euros
- Purpose: Financing Olkaria II extension
- Interest Rate: Each drawdown shall bear a fixed interest rate which shall be equal to the reference fixed rate increased or reduced by the index rate fluctuation between the signing date and the interest rate setting date. However the interest shall not exceed 5.4% p.a. or be less than 0.25% p.a.
- Duration: Amortisation to start from 31st August 2012 to 28th February 2024.
- Drawdown: subject to satisfaction of the Terms and Conditions precedent prescribed in the agreement.
- Security: A first ranking security interest over KenGen's assets at Olkaria geothermal power plant the benefit of which is intended to be shared between AFD and EIB as will be agreed through an intercreditor agreement.
- Other material covenants:

KenGen shall submit for prior approval of AFD the decisions concerning recourse to long term or medium term indebtedness for an amount equal to or more than 40,000,000 Euros and AFD shall give its approval or notice of its refusal to approve within 1 month of KenGen's notice. AFD's interest shall be pari passu to any interest to a third party arising out of such indebtedness.

KenGen undertakes to maintain the following financial ratios:

- The Debt Service Coverage Ratio in the medium long term shall not be less than 1:5;
- The General Liquidity Ratio shall not be less than 1:5; and
- The Leverage Ratio shall not exceed 1:5.
- KenGen shall not without AFD's prior written consent create in favour of any third party any indebtedness, any security or other guarantee over the assets financed under this agreement. AFD has consented to the issue of the Bonds by KenGen.
- KenGen undertakes to keep in full force and effect the securities granted to AFD pursuant to this agreement and to maintain AFD's rights under this agreement and ensure that there are no prior ranking securities.
- KenGen undertakes not to amend the current provisions of its Articles of Association as at the signing date and thereafter in any manner that may affect AFD's interests and rights.

KenGen shall communicate to AFD inter alia:

- any change in the electricity tariffs, any change in the tariffs structure and any new tariff approved by the ERC within 45 days of the approval; and
- any information concerning its financial situation, business or operations or any elements concerning the Terms and Conditions of performance of the project documents that AFD may reasonably request as promptly as practicable.

- Governing Law: French Law
- Dispute Resolution: Arbitration in accordance with the UNCITRAL Arbitration Rules.

Loan Agreement dated 23 January, 2007 between KenGen and Japan Bank for International Cooperation ("JBIC") for Sangoro Power Plant:

- Loan Amount: 5,620,000,000 Japanese Yen
- Utilised Amount: 805,049,031 Japanese Yen.
- Interest Rate: 0.75% per annum
- Duration: Grace Period - 10 Years; Amortisation to start from 2017 to 2047.
- Outstanding Amount as at 19 March 2009: 805,049,031 Japanese Yen.
- Security: Guarantee of GoK
- The loan agreement incorporated the terms of the lender's general terms and conditions dated November 1997.

Finance Contract dated 31 May 2005 between KenGen and the European Investment Bank for Olkaria II Geothermal Power Project:

- Loan Amount: US$ 50, 000,000.00 (up to Euros 36,800,000.00)
- Purpose: Financing of Olkaria II extension
- Interest Rate: variable (see Clause 3.01 of the agreement)
- Grace Period: 5 Years. Amortisation to start from 2010 to 2025 (bi-annually).
- Security: None
- There has been no drawdown of the loan amount as at the date of this Information Memorandum.

Loan Agreement dated 20 February 2004 between KenGen and Japan Bank for International Co-operation for Sondu/Miriu Hydropower Project Phase 2:

- Loan Amount: 10,554,000,000 Japanese Yen
- Utilised Amount: 10,410,203,300 Japanese Yen.
- Interest Rate: 0.75% per annum
- Duration: Grace Period - 9 Years; Amortisation to start from 2014 to 2044.
- Outstanding Amount as at 19 March 2009: 10,410,203,300 Japanese Yen.
- Security: Guarantee of GoK
- The loan agreement incorporated the terms of the lender's general terms and conditions dated November 1997.

Loan Agreement dated 3 March 1997 between KenGen and Japan Bank for International Co-operation for Sondu/Miriu Hydropower Project Phase 1:

- Loan Amount: 6,933,000,000 Japanese Yen
- Purpose: Financing of Sondu/Miriu Hydropower Project Phase 1
- Utilised Amount: 6,933,000,000 Japanese Yen
- Interest Rate: 2.3% per annum
- Duration: Grace Period - 7 Years; Amortisation to start from 2006 to 2026.
- Outstanding Amount as at 19 March 2009: 6,256,589,000 Japanese Yen
- Security: Guarantee of GoK

- The loan agreement incorporated the terms of the lender's general terms and conditions dated November 1997.

Loan Agreement dated 31 March 1995 between KenGen and Japan Bank for International Co-operation for Kipevu:

- Loan Amount: 10,716,000,000 Japanese Yen
- Purpose: Financing for Kipevu (diesel power) plant
- Utilised Amount: 8,719,021,762 Japanese Yen.
- Interest Rate: 2.6% per annum
- Duration: Grace Period - 7 Years; Amortisation to start from 2005 to 2025.
- Outstanding Amount as at 19 March 2009: 7,017,714,000 Japanese Yen
- Security: Guarantee of GoK
- The loan agreement incorporated the terms of the lender's general terms and conditions dated November 1997

Facility with Citibank

- Issuer was granted on 3 April 2009 an unsecured facility of US$ 25 million by Citibank for one year;
- Facility has two components: (i) Omnibus facility for issuance of sight/usance Import letters of credit (LC) and/or advances and import finance loans to the tune of US$ 24.5 million; and (ii) an LC facility of US$ 0.5 million; and
- The ominibus facility has a sub-limit of US$ 10 million for overdraft facilities

Although the Issuer has obtained board approval, the facility is yet to be drawn down. The Issuer intends to have this facility renewed in April 2010, subject to agreement with Citibank N.A.

The Issuer has not been and is not in breach of any of its material covenants in respect of any of the above loans or facilities.

17.3.7 Emissions Reductions Purchase Agreements

KenGen signed an Emission Reductions Purchase Agreement with World Bank for Purchase of Certified Emission Reductions (CERs) from Olkaria II 3rd Unit project in November 2006. The project activity involves the construction of a new generation unit to increase the capacity of the existing Olkaria Geothermal Power Plant in Olkaria, Kenya from 70 MW to 105 MW, with an estimated annual incremental generation of 276 GWh. The project will be implemented on Engineer Procure Construct (EPC) basis.

Expected annual CER reduction is 151,800 tCO2-equivalent. Under the Emission Purchase Reduction Agreement with the World Bank KenGen has agreed a price of 10.5 US$ per tonne CO2 equivalent. The documentation (known as Project Design Document or PDD) that is required before the project is registered has been finished and is being reviewed by the World Bank CDM expert before it is send for validation.

Other projects which may benefit from CER Purchase Agreements are also in advanced stages and have already undergone World Bank's Safeguards appraisal. The World Bank signed the Letter of Intent with KenGen to purchase CERs from these projects. These projects are: Eburru Geothermal Project, Sondu Miriu Power Project, Redevelopment of Tana Power Station Project, Optimization of Kiambere Power Project, and Kipevu Combined Cycle Project. The table below is a summary of the expected annual revenue from CERs when the projects and relevant CER Purchase Agreement are finalised:

Table 28: CER summary purchase agreement

Project	Annual Energy generation (GWh)	Annual CERS (tCO2 equivalent)	Expected annual revenue from CERs @average price of US$10 per tonne
Olkaria II 3rd Unit	276	176,000	1,176,000
Eburru Geothermal Project	21	11,500	115,000
Redevelopment of Tana Power Station Project	130	71,649	716,490
Optimization of Kiambere Power Project	60	33,000	330,000
Total annual CDM revenue (US$)			1,046,490

Source: KenGen

17.3.8 Fuel Supply Agreements

Contract for the Supply of Automotive Gas Oil for Emergency Power Plants at Embakasi I & II and Eldoret dated 20 March 2009 between KenGen and National Oil Corporation of Kenya: KenGen has entered into a contract with National Oil Corporation of Kenya ("NOCK") for the supply of Automotive Gas Oil for Emergency Power Plants at Embakasi and Eldoret. The price payable will be calculated as per the formula provided in the general terms and conditions of the contract. Under the contract NOCK is to provide a bank guarantee in the sum of Kshs. 45,000,000 for due performance of the contract. The contract is to run up to 8th December 2009 in respect of the 60 MW and 50 MW Embakasi Plants. Vide Amendment No. 2 to this Contract, the expiry date for supply of fuel to the 36 MW Eldoret Plant was extended from 30th June 2009 to 8th December 2009. The contract is subject to KenGen's standard procurement terms and conditions.

Contract for the Supply and Delivery of Heavy Fuel Oil for Kipevu Power Station between KenGen and Kenya Oil Co. Ltd dated 26 January 2009: KenGen has entered into an agreement with Kenya Oil Co. Ltd ("KENOL") for the supply by KENOL to KenGen of Heavy Fuel Oil for Kipevu Power Station. The price payable per metric ton will be calculated as per the formula provided in clause 8 of the general terms and conditions of the contract. Under the contract KENOL is to provide a bank guarantee in the sum of Kshs. 30,000,000 for due performance of the contract. The contract is for a term of 18 months from the date of the contract. The contract is subject to KenGen's standard procurement terms and conditions.

Contract for the Supply and Delivery of Kerosene for KenGen Kipevu Power Station between KenGen and Kenya Oil Co. Ltd dated 23 May 2008: KenGen has entered into an agreement with Kenya Oil Co. Ltd ("KENOL") for the supply by KENOL to KenGen of Kerosene for Kipevu Power Station. The price payable per metric ton will be calculated as per the formula provided in the general terms and conditions of the contract. Under the contract KENOL is to provide a bank guarantee in the sum of Kshs. 30,000,000 for due performance of the contract. The contract is for a term of 1 year from the date of the contract. The contract is subject to KenGen's standard procurement terms and conditions.

17.3.9 Other Contracts

Contract for the Supply of 10" and 8" Victaulic or Equivalent Grooved Steel Water Pipes between KenGen and Yashinoya Trading Co. Ltd dated 31 December 2008: KenGen has entered into an agreement with Yashinoya Trading Company Ltd ("Yashinoya") for the supply by Yashinoya to KenGen of 10" and 8" victaulic or equivalent grooved steel water pipes at a cost of USD 3,324,940. Under the contract Yashinoya is to provide a bank guarantee in a sum equivalent to 10% of the contract price for due performance of the contract. The contract is subject to KenGen's standard procurement terms and conditions.

Contract for the Supply of Assorted Spares for Kipevu Diesel Plant between KenGen and BWSC dated 12 December 2008: KenGen has entered into an agreement with BWSC for the supply by BWSC to KenGen of assorted spares for Kipevu Diesel Plant at a cost of 1,713,739 Euros. Under the contract BWSC is to provide a bank guarantee in a sum equivalent to 10% of the contract price for due performance of the contract. The contract is subject to KenGen's standard procurement terms and conditions.

Contract for the Supply of Civil Construction and Drilling Support Equipment for Olkaria Geothermal Project between KenGen and Pan African Trucks and Equipments Ltd dated 20 May 2008: KenGen has entered into an agreement with Pan African Trucks and Equipments Ltd ("PATE") for the supply by PATE to KenGen of civil construction and drilling support equipment for Olkaria Geothermal Project at a cost of 55,539,640 Japanese Yen. Under the contract PATE is to provide a bank guarantee in a sum equivalent to 10% of the contract price for due performance of the contract. The contract is subject to KenGen's standard procurement terms and conditions.

Contract for the Design, Installation and Commissioning of the Grid Connected with the Farm Systems on the Ngong Hills between KenGen and TPF Econoler S. A. dated 29 October 2007: KenGen has entered into an agreement with TPF Econoler S. A. ("TPF") for the design, installation and commissioning of the grid connected with the farm systems on the Ngong Hills at a total cost of 10,000,000 Euros. Under the contract TPF is to provide a bank guarantee in a sum equivalent to 5% of the contract price for due performance of the contract.

Contract for the Provision of Engineering Services for at Sang'oro Power Plant between KenGen and Nippon Koei Co. Ltd dated 11 May 2007: KenGen has entered into an agreement with Nippon Koei Co. Ltd ("NK") for the provision by NK of engineering services for Sang'oro Power Plant at an estimated cost of Kshs. 151,054,750. This amount is to be financed out of the loan extended by JBIC. The contract is for a term of 60 months from the date of the contract.

17.4 Licences and Permits

17.4.1 Power Generation Licences required under the Energy Act 2006

KenGen has obtained power generation licences in respect of all its power stations. These licences are summarized below.

Table 29: Power generation licenses

No.	License Ref. No	Scope of license	Duration from Commencement Date - 2.10.2008	Location	Fees (Kshs)
1.	G1.01.08	Olkaria Geothermal Power Generating Stations with combined output of 115 MW comprising: Olkaria I – 45MW Olkaria II – 70MW	25 years	Hells Gate National Park, Naivasha	Grant of license fee : 1,150,000 Annual fee: 575,000
2.	G1.02.08	Seven Forks Hydro Power Generating Stations with combined output of 543.2 MW comprising: Masinga – 40MW Kamburu – 94.2MW Kindaruma – 40MW Gitaru – 225MW Kiambere – 144MW	25 years	Along Tana River	Grant of license fee :5,432,000 Annual fee: 2,716,000
3.	G1.03.08	106 MW Turkwel Hydro Power Generating Station	25 years	Along Turkwel River	Grant of license fee :1,060,000 Annual fee: 530,000
4.	G1.04.08	60MW Sondu Miriu Hydro Power Generating Station	25 years	Along Sondu Miriu	Grant of license fee :1,060,000 Annual fee: 530,000
5.	G1.05.08	Mini Hydro Power Generating Stations with a combined output of 21.68 MW comprising: Sagana – 1.5 MW Ndula – 2.0MW Tana – 10.4 MW Wanjii – 7.4 MW Mesco – 0.38 MW	Sagana -18 years Ndula – 6 years Tana – 12 years Wanjii – 15 years Mesco – 12 years	Upper Tana	Grant of license fee : 216,800 Annual fee: 108,400
6.	G1.06.08	2 MW Gogo Mini Hydro Power Generating Station	7 years	Along Kaju River	Grant of license fee : 20,000 Annual fee: 10,000

No.	License Ref. No	Scope of license	Duration from Commencement Date - 2.10.2008	Location	Fees (Kshs)
7.	G1.07.08	0.4 MW Sosiani Mini Hydro Power Generating Station	12 years	Along Sosiani River	Grant of license fee : 4,000 Annual fee: 2,000
8.	G1.08.08	13.5 MW Nairobi South Gas Turbine Power Generating Station	5 years	Lunga Lunga Road, Nairobi	Grant of license fee : 135,000 Annual fee : 67,500
9.	G1.09.08	Thermal Power Generating Stations with a combined output of 133.5 MW comprising: Kipevu I Diesel Plant – 73.5 MW Kipevu Gas Turbines – 60 MW	15 years	Kipevu, Mombasa	Grant of license fee : 1,335,000 Annual fee: 667,500
10.	G1.10.08	3.4 MW Garissa Thermal Power Generating Station	15 years	Garissa	Grant of license fee : 34,000 Annual fee :17,000
11.	G1.11.08	2.1 MW Lamu Thermal Power Generating Station	15 years	Lamu	Grant of license fee : 21,000 Annual fee :11,500
12.	G1.12.08	0.35 MW Ngong Wind Power Generating Station	15 years	Ngong Hills	Grant of license fee : 3, 500 Annual fee: 1,750

KenGen has confirmed that all grant and annual fees in respect of the above licences have been duly paid.

17.4.2 Licences required under the Geothermal Resources Act

KenGen has obtained a Geothermal Resources Licence in respect of Olkaria I and Olkaria II power plants. The licence is for a term of 30 years, renewable for a further term of 5 years.

Menengai and Eburru

KenGen has made applications for Geothermal Resources Licences in respect of Menengai and Eburru areas and has received approval in principle from the Minister for Energy but no formal licence has been issued. No extraction activities are currently being undertaken in these areas.

Licences required under the Water Act, 2002

KenGen has obtained Water Permits in respect of all its hydro- electric and geothermal power plants save for Turkwel. However KenGen has submitted an application for the permits for Turkwel.

17.4.3 Business Permits required under the Local Government Act

KenGen has obtained business permits in respect of each of its business premises from the relevant local authorities.

17.5 Material Litigation

KenGen is involved in the following material litigation or dispute resolution proceedings:

Table 30: Material litigation

Case Number	Parties	Subject Matter	Possible Liability of KenGen
1. Income Tax Appeal No. 16/2007, Milimani	Commissioner of Domestic Taxes v. KenGen	Appeal filed by the KRA against the decision of the Local Committee dismissing KRA's claim against KenGen for Kshs 3,423,505,246 in respect of income tax for the year 2000 year of income.	The decision of the Local Committee revised the tax imposed by KRA on KenGen from Kshs 3.4 billion to Kshs 11,274,299. In the event that KRA's appeal is successful the potential liability on KenGen is Kshs 3.4 billion plus costs.
2. HCCC No. 576/2007, Milimani	Mowlem Construction Co. v. KenGen	Suit by KenGen's former contractor on the basis of additional works carried out at Kamburu Dam in the year 2000. KenGen's Defence is that the suit is time barred and the court lacks jurisdiction to hear the claim as the contract between the Parties contained an arbitration clause.	In the event that KenGen is unsuccessful it will be required to pay the Contractor a sum of Kshs 3,143,432 and GB Pounds Sterling 1,104,271 together with costs.

17.6 Property and information on vendors and material assets acquired in the last three years

The table below shows significant material asset acquisitions within the past three years

Table 31: Information on vendors for significant asset acquisitions in the last 3 years

Asset	Year	Purchase/ Commissioning Cost
60 MW Sondu Miriu Hydro – electric power plant	2008	Kshs. 17,000,000,000

The vendors do not guarantee the book debts and other assets. However, they maintain a 1-year defect liability period within which part of the contract sum is also retained.

KenGen's principal properties and assets are in respect of its various power generation plants listed in Section 10.

KenGen has not disposed any material property within the past five years. The Company has beneficial ownership of all its material properties.

Material properties in which KenGen has a beneficial interest include various pieces or parcels of land comprised in the following:

Table 32: Material properties in which KenGen has a beneficial interest

Property	Location	Property	Location
Gitaru unit 1	Tana River	Tana 5*	Tana River
Gitaru 2&3	Tana River	Tana 6*	Tana River
Kindaruma*	Tana River	Wanjii 1&2*	Maragua River
Kamburu 1&2	Tana River	Wanjii 3&4*	Maragua River
Kamburu 3	Tana River	Sondu Miriu*	Western Kenya
Kiambere*	Tana River	Olkaria I	Olkaria
Masinga*	Tana River	Olkaria II	Olkaria
Turkwel*	Turkwel River	Kipevu Diesel*	Mombasa
Gogo Falls	Kuja River	Kipevu JMBE GT 1*	Mombasa
Mesco	Maragua River	Kipevu JMBE GT 2*	Mombasa
Ndula*	Thika River	Nairobi Fiat GT*	Nairobi
Selby Falls	Sosiani River	Ngong*	Nairobi
Sagana Falls	Tana River	Lamu	Lamu
Tana 3*	Maragua River	Garissa*	Garissa

*KenGen is still following up on the legal titles for the concerned properties.

A full list (together with the relevant valuation reports) of properties to which KenGen has beneficial title will be available for inspection.

17.7 General Information

(a) There are no founders', management or deferred shares in the capital of the Company.

(b) The share capital of the Company is not divided into different classes of shares and all shares carry equal rights.

(c) No unissued share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

(d) Save as disclosed in Section 9, no share or loan capital of the Company or its subsidiaries has been issued, to the public or otherwise, within the period since incorporation of the Company or is now proposed to be issued, fully or partly paid, for a consideration other than cash or by way of distribution of retained earnings.

(e) Other than fees and commissions payable during the listing of the Company's shares and borrowing funds, no commission, discount, brokerage or other special terms have been granted by the Company within the periods since incorporation in connection with the issue or sale or any share or loan capital of the Company.

(f) As at the date of this Information Memorandum there are 17,566,072 unissued shares in the Company but there are no categories of persons having preferential subscription rights to such unissued shares.

(g) Save as disclosed above, the Company does not intend to carry on any other businesses that may be material with regard to the profit or loss, assets employed or any other factors affecting the current business.

(h) Save for the acquisition of the assets acquired or agreed to be acquired under the various agreements set out in Section 17.3, no significant material assets have been purchased by the Company in the last five years, nor is it proposed to buy any new assets in the near future.

(i) Save for salaries and benefits received by the Directors of the Company under service contracts with members of the Company, no amount or benefit has been paid or given within the two preceding years, nor is intended to be paid or given, to any promoter.

(j) So far as the Directors of the Company are aware, there is no material litigation nor are there claims of material importance pending or threatened against the Company as is disclosed in Section 17.5 of this Information Memorandum.

(k) Ernst & Young have not resigned. or been removed in the last two years and as the Company auditors, have not deposited a statement with the Company of circumstances which they believe should be brought to the attention of the members and creditors of the Company.

(l) PricewaterhouseCoopers and Hamilton Harrison & Mathews Advocates have given and have not withdrawn their respective consents to the issue of this document with the inclusion therein of their reports and names and the references thereto in the form and context in which they appear respectively.

(m) Save for the service contract between the Company and some of its directors, and save as otherwise disclosed in this Information Memorandum, there is no existing or proposed contract between any Directors of the Company

(n) The Company's Articles of Association do not stipulate a minimum number of Shares required by an individual to allow for qualification as a Director of the Company.

(o) No amounts have been paid or agreed to be paid in cash or otherwise by any person to any present Director, or to any partnership, company, syndicate, or other association of which any Director is a member, either to induce him to become or to qualify him as a Director or for services rendered by any such Director or by any such partnership, company, syndicate or association in connection with the promotion or formation of the Company

(p) No bankruptcy, receivership or similar proceedings have been taken against the Company.

(q) There is no plant or equipment that is expected to be replaced within two years of the date of this Information Memorandum except those resulting from any renovation and upgrading of existing equipment.

(r) No options to purchase any securities of the Company have been granted to or exercised by any Director of the Company, its subsidiary or holding company within the period of one year prior to the date of this Information Memorandum.

(s) There is no specific government protection and /or any investment encouragement law affecting the business, other than regulation of the relevant industries by relevant regulators.

(t) Save as disclosed in this Information Memorandum, there are no principal future investments (new research and development) on which the Directors have already made firm commitments.

(u) None of the Directors of the Company holds in excess of 3% of the share capital of the Company as at the date of publication of this Information Memorandum.

(v) There are no arrangements known to the Company the operation of which may result in a change of control of the Company.

(w) Save as disclosed in Section 17.3, there are no transactions which are or were unusual in their nature or conditions or significant to the business of the Company, effected during the current or immediately preceding year or any earlier financial year which remain outstanding or unperformed.

(x) Save for the salaries and benefits received by the Executive Director under a service contract with the Company no other cash, securities or benefits have been paid, issued or given to any promoters or members of the Company in the last three years preceding the publication of this Information Memorandum or proposed to be paid, issued or given to any such persons, in his capacity as a promoter.

(y) The Company does not plan nor does it expect to change its senior management in the next 24 months following the Bonds' issue.

(z) Save as disclosed in this Information Memorandum and in the Reporting Accountants' report, the Company has no material commitments, lease payments, contingent liabilities or guarantees.

(aa) The Board may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue income notes, bonds, debentures and other securities. The borrowing powers of the Board have not been exceeded in the past three years.

(bb) The Company has no outstanding loan capital or indebtedness other than in the ordinary course of business nor has it exceeded any applicable borrowing powers over the last three years.

(cc) None of the Directors or senior managers of the Company have in the last two years been subject to bankruptcy proceedings nor have they been barred by any court of competent jurisdiction from being a director or acting as an investment adviser or as a director or employee of a stockbroker, dealer, or any other financial service institution or from engaging in any type of business practice or activity.

(dd) There have been no criminal proceedings in which any Director or senior manager of the Company has been convicted of fraud or any criminal offence either within or outside Kenya and no Director or senior manager of the Company is the subject of any pending criminal proceedings, or proceedings in respect of any other offence or action either within or outside Kenya.

(ee) There have been no material disposals of assets by the Company in the last five years.

(ff) Save as disclosed in Sections 3, 17.3 and the Reporting Accountants' report, no significant material assets have been purchased by the Company in the last five years, nor is it proposed to buy any new assets in the near future.

(gg) There is no arrangement pursuant to which any future dividends of the Company have been waived or have been agreed to be waived.

(hh) The Issue will not result in any of the existing covenants of the Issuer being breached.

(ii) The Directors of the Issuer believe that, on the basis of its current and prospective business activities, the Issuer will be able to fulfil its debt obligations.

(jj) The Directors of the Issuer are confident of favourable business prospects, and are not aware of any adverse events that could undermine business activities.

(kk) Save as disclosed herein and in this Information Memorandum, there has been no significant change in the financial or trading position of the Issuer and there has been no material adverse change in its financial position or prospects since 31 December 2008.

(ll) Inter-Group Borrowings

Save as disclosed herein, the Issuer does not currently have any significant loans between itself and:

(1) Enterprises that are controlled by or are under control of the Issuer;

(2) Associated companies;

(3) Any individuals owning a sufficient interest in the Issuer (such that the individuals are able to exert significant influence over the Issuer);

(4) Key management and personnel of the Issuer;

(5) Enterprises owned by directors or major shareholders of the Issuer; and

(6) Enterprises that have a number of key management in common with the Issuer.

17.8 Expenses of the Offer

The expenses of the offer and listing, which will be for the account of KenGen, are estimated at Kshs 229 million. Note that any deemed interest on funds held subsequent to the closing of the offer and prior to making refunds is payable to the Investor Compensation Fund.

Table 33: Expenses of the Bond Offer

Task/Advisor	Supplier	Fee Kshs
Financial Advisor	KPMG	60,218,600
Financial Arranger	Standard Chartered bank	56,450,000
Sponsoring Broker	Standard Investment Bank (SIB)	7,500,000
Reporting Accountant	PricewaterhouseCoopers	2,550,000
Legal Advisor	Hamilton Harrison & Mathews	3,550,000
Public Relations	Ogilvy PR	3,000,000
Advertising Firm fees including advertising costs	Lowe Scanad	30,000,000
Registrar fees	Image Registrars Limited	800,000
Receiving Agent Costs (including hardware - to be used by registrar for applications)	Image Registrars Limited	9,800,000
Bond Trustee	Livingstone Registrars Limited	1,150,000
Placement Fees*	NSE Licenced stockbrokers	37,500,000

Task/Advisor	Supplier	Fee Kshs
NSE listing fee (0.0125%) - Capped at Kshs 1 Million	NSE	1,000,000
CMA approval fees (0.1%)	CMA	15,000,000
Total Listing Costs		**228,518,600**
Total issue cost as % of bond issue (Kshs 15 billion)		1.52%
*Authorised Placement Agents will be paid a fee of 0.25% of the value of each successful application.		

KenGen has not paid any commission or consideration relating to the acquisition of any shares of the Company during the two years preceding the date of this Information Memorandum.

17.9 Directors declaration

The Directors of KenGen, whose names appear on section 8 of this Information Memorandum, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken reasonable care to ensure that such is the case) the information contained in this document is in accordance with facts and does not omit anything that is likely to affect the import of such information.

17.10 Directors statement as to funding for payment obligations for Bonds

The Directors of the Issuer have resolved to undertake that the Issuer will maintain adequate funds to meet the principal and interest obligations under the Bonds at least 14 Business Days' prior to the due date of any such payment, through either:

a) maintenance of adequate funds in the Issuer's bank accounts for purposes of the principal and interest payments in respect of the Bonds; or

b) a standby credit facility extended by its bankers.

An explanation of the above is set out in Section 13.6.

18 Documents available for inspection

Copies of the following documents are available for inspection at the registered office of the Issuer of the Issue and Registrar in Nairobi, Kenya:

1. Certificate of Incorporation
2. Memorandum and Articles of Association of Kenya Electricity Generating Co Ltd , and copies of any special or ordinary resolutions amending the Memorandum and Articles of Association or the Company's share capital within the last five years;
3. Board Resolution authorizing KenGen's Kshs 15 Billion Bond plus Greenshoe Option through a Public Infrastructure Bond Offer
4. Board Resolutions regarding :
   a. Approval of the Information Memorandum
   b. Approval of the Bond Application Form
5. Letter of support from GoK
6. Information Memorandum
7. Bond/Bond Application Form
8. Published Audited Financial Statements for years ended 30 June 2008, 2007 and 2006 and Audited Accounts for the 6 month period 1st July 2008 – 31 December 2008
9. Accountants Report
10. Legal Opinion by Legal Advisors which conforms to the Opinion contained in the Info Memo
11. Placement Agreement
12. Trust Deed
13. Agency Agreement (Incorporates Fiscal Agent and Registrar)
14. Bond Trustee Agreement
15. Form of Bonds
16. Power Purchase Agreement (PPA)
17. Draft Copy of the latest Least Cost Power Development Plan
18. Consent Letters by Reporting Accountants and Legal Advisors
19. Latest certified appraisals or valuations relative to moveable and immovable property
20. The approvals of the Minister for Energy, the Minister of Finance, the CMA and the NSE in respect of the Bond and the letter of no objection from ERC
21. Copies of service agreements with senior managers and officers of KenGen.

Copies of the Information Memorandum shall be made available free of charge from the offices of the Authorised Placing Agents, Receiving Agent, Bond Trustee and the offices of the Sponsoring Broker in Nairobi.

K.A. Fraser*
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K. Kimani
G. G. Murugara
A.Khawaja
P.V.Shah
A. Mugambi
M.K. Kirimi
*British

Consultants:
M.L Somen
P. Le Pelley SC

HAMILTON HARRISON & MATHEWS

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www.hhm.co.ke
DROPPING ZONE: No. 144

WHEN REPLYING PLEASE QUOTE OUR REF:

6/S0345/55 YOUR REF:

28th August 2009

The Directors
Kenya Electricity Generating Company Limited (**"KenGen"**)
Stima Plaza
Kolobot Road
NAIROBI

Dear Sirs

OPINION UNDER REGULATION 6(3)B OF THE CAPITAL MARKETS (SECURITIES) (PUBLIC OFFERS LISTING AND DISCLOSURES) REGULATIONS 2002 (THE "REGULATIONS") CONCERNING THE ISSUE BY KENYA ELECTRICITY GENERATING COMPANY LIMITED FOR SUBSCRIPTION (THE "OFFER") OF UP TO KSHS 15,000,000,000/= (FIFTEEN BILLION KENYA SHILLINGS) BOND WITH A GREENSHOE OPTION (THE "BONDS").

We have acted as the Legal Advisors of the Company in connection with the offer for subscription of the Fixed Rate Note (the "Note") for the principal amount not exceeding Kenya Shillings Fifteen Billion (Kshs 15,000,000,000) (the "Offer") with a Greenshoe option. The terms and conditions of the Notes are contained in the Information Memorandum issued by the Company and dated .

We, Hamilton Harrison & Mathews, are Advocates of the High Court of Kenya, practicing and qualified as such to practice in Kenya, and to advice upon the laws of Kenya.

Unless otherwise stated or the context otherwise requires, words and terms defined in the Information Memorandum ("the Information Memorandum") dated 28th August 2009 in relation to the Offer bear the same meaning in this Opinion.

1. DOCUMENTS

For this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

1.1 the certificate of incorporation of KenGen, and its memorandum and articles of association in force as at the date of the Information Memorandum;

1.2 the Information Memorandum;

1.3 a letter of "No objection" dated the 13 May 2009 from the Energy Regulatory Commission ("ERC") approving the Offer;

1.4 a letter of approval under the State Corporations Act dated 9 April 2009 from the Minister for Energy;

1.5a letter dated 27th August 2009 from the Capital Markets Authority approving the Offer in the manner prescribed under the Information Memorandum;

1.6 a letter dated 28th August 2009 from the Nairobi Stock Exchange ("NSE") approving the listing of the Notes that are to be issued pursuant to the Offer; and

1.7 all relevant board resolutions and such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

2. ASSUMPTIONS

For the purposes of this opinion, we have assumed:

2.1 Accuracy of information supplied

All written information supplied to us by KenGen and by its officers and advisors is true, accurate and up to date.

2.2 Authenticity of copies

The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.

2.3 Signatures

The genuineness of all signatures on all documents.

2.4 Due execution by other parties

All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents other than KenGen.

2.5 Factual matters

With respect to matters of fact, we have relied on the representations of KenGen and its officers and advisors.

3. OPINIONS

In our opinion, based on the information made available to us by KenGen and subject to (i) the foregoing; (ii) section 2 of this Opinion; (iii) any matters set out in the Information Memorandum; (iv) the reservations set out below; and (v) any matters not disclosed to us:

3.1 KenGen is a public company limited by shares, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya) and listed at the NSE, with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Offer, and such execution, delivery and performance have been duly authorised by appropriate corporate action;

3.2 all rights and obligations of KenGen contemplated by the Offer constitute valid and binding rights and obligations enforceable according to their terms;

3.3 the existing share capital of KenGen has been authorized and issued in conformity with all applicable laws and has received all necessary authorizations;

3.4 the transactions contemplated by the Offer and the performance by KenGen of its obligations thereunder will not violate any laws of Kenya;

3.5 all authorisations, approvals, consents, licences, exemptions, filings or registrations of or with any governmental or public bodies or authorities of or in Kenya required in connection with the Offer have been obtained in proper form and are in full force and effect;

3.6 KenGen continues to maintain its statutory books at its registered office;

3.7 with regard to immoveable properties, KenGen is the legal and/or beneficial owner of all the immoveable property as set out in the Information Memorandum;

3.8 save for the contracts disclosed in the Information Memorandum at section 17, KenGen has not entered into any material contracts (within the meaning set out in paragraph 14 of the Third Schedule to the Companies Act i.e. contracts not entered into in the ordinary course of business carried on by KenGen) and there is no other agreement or arrangement concerning the offer;

3.9 KenGen is involved in the following material litigation or dispute resolution proceedings:

Case Number	Parties	Subject Matter	Possible Liability of KenGen
Income Tax Appeal No. 16/2007 Milimani,	Commissioner of Domestic Taxes v KenGen	Appeal filed by the KRA against the decision of the Local Committee dismissing KRA's claim against KenGen for Kshs 3,423,505,246 in respect of income tax for the year 2000 year of income.	The decision of the Local Committee revised the tax imposed by KRA on KenGen from Kshs 3.4 billion to Kshs 11,274,299. In the event that KRA's appeal is successful the potential liability on KenGen is Kshs 3.4 billion plus costs.
HCCC No. 76/200 Milimani	Mowlem Construction Construction Co. v KenGen	Suit by KenGen's former contractor on the basis of additional works carried out at Kamburu Dam in the year 2000. KenGen's Defence is that the suit is time barred and the court lacks jurisdiction to hear the claim as the contract between the Parties contained an arbitration clause.	In the event that KenGen is unsuccessful it will be required to pay the Contractor a sum of Kshs 3,143,432 and GB Pounds Sterling 1,104,271 together with costs.

Save for the claims listed above there is no material litigation or arbitration, prosecution or other civil or criminal legal action in which KenGen or its Directors as Directors of KenGen, are involved or any other material claims against KenGen that could result in a dispute to be resolved by arbitration or litigation; and

3.10 there are no other material items not mentioned in the Information Memorandum of which we are aware with regard to the legal status of KenGen and the Offer.

4. FURTHER OPINIONS

Based upon and subject as aforesaid, and without prejudice to the generality of the foregoing, we are also of the opinion that:

4.1 the Information Memorandum has been dated in accordance with section 43(4) of the Companies Act;

4.2 a copy of the Information Memorandum, together with the documents required under Section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi for registration in accordance with section 43(a) of the Companies Act, duly signed by every person named in the Information Memorandum as a director of KenGen or by his agent duly authorized in writing, and a statement to such effect appears on the face of the Information Memorandum in accordance with section 43 (3) of the Companies Act;

4.3 this Information Memorandum contained statements made by Messrs PricewaterhouseCoopers, Certified Public Accountants and by ourselves, all of whom are experts for the purposes of Section 42(1) of the Companies Act. In accordance with Section 42(1) of the Companies Act, PricewaterhouseCoopers and we have given, and have not before the delivery of this Information Memorandum for registration withdrawn, our consent to the issue of the Information Memorandum with the statements by us included in the form and context in which they are included; and

4.4 application has been duly made to, and permission duly granted by, the Capital Markets Authority in respect of the Offer pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the First Schedule thereto.

5. RESERVATIONS

This letter and the opinions given in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date. We express no opinion in this letter on the laws of any other jurisdiction.

We as the legal advisors confirm that we have given and have not, prior to the date of the Information Memorandum, withdrawn our written consent to the inclusion of the legal opinion in the form and context in which it appears.

Yours faithfully

Hamilton Harrison & Mathews

HAMILTON HARRISON & MATHEWS

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The Directors

Kenya Electricity Generating Company Limited

Stima Plaza, Kolobot Road

P O Box 47936 – 00100

Nairobi.

24 August 2009

Dear Sirs

Subject: REPORTING ACCOUNTANT'S REPORT ON KENYA ELECTRICITY GENERATING COMPANY LIMITED (KENGEN)

We are pleased to submit our Accountant's Report in accordance with:

- Section 19 of the Third Schedule of the Companies Act Cap 486; and
- The requirements of Part C of the Third Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002.

The Controller and Auditor General is the auditor of KenGen and has been the auditor of the company for the three year period ended 30 June 2008 and she has issued unqualified opinions on each of the financial statements for those years. The Controller and Auditor General has appointed Ernst & Young, Certified Public Accountants, for each of the three years to assist her with the audit of the company's financial statements. The Controller and Auditor General has also carried out an interim audit for the six months ended 31 December 2008 and issued a qualified audit report (see section C below).

A. INTRODUCTION

The financial information set out in this report has been compiled in accordance with International Standard on Related Services 4410 – Engagements to Compile Financial Statements ("ISRS 4410"), from the audited financial statements of KenGen for the three years ended 30 June 2008 and the six months ended 31 December 2008. As required by ISRS 4410, we have made enquiries of management about the operations of the company and its accounting principles and practices, and have applied that knowledge in compiling the financial statements. In compiling the accompanying financial statements, we have effected a number of adjustments to the audited financial statements as indicated in the 'Statement of Adjustments'.

We conducted our review in accordance with the International Standard on Review Engagements 2400 – Engagements to Review Financial Statements ("ISRE 2400"). The objective of the review engagement is to enable us to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards. This Standard requires that we plan and perform the review with an attitude of professional scepticism, and to obtain sufficient evidence primarily through enquiry and analytical procedures to be able to draw conclusions.

Our work on the information presented in our Accountant's Report included:

- review of the financial statements for the three years ended 30 June 2008 and six months ended 31 December 2008 for compliance with International Financial Reporting Standards (IFRS);
- review of the work performed by the company's auditor in order to determine whether sufficient evidence was obtained in compliance with International Standards on Auditing (ISA) to support the audit opinion in the financial statements;
- making enquiries from the company's management with respect to certain matters; and
- review of other evidence relevant to the company's financial statements.

A review carried out in accordance with ISRE 2400 is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. However based on our review, other than for the effect of the matters set out in section C and E (ii) and (iii) below, nothing has come to our attention that causes us to believe that the audited financial statements of Kenya Electricity Generating Company Limited for the three years to 30 June 2008 and six months to 31 December 2008 do not give a true and fair view in accordance with International Financial Reporting Standards.

In respect of the proforma financial information, we conducted our review in accordance with International Standard on Assurance Engagements (ISAE) 3400 – The Examination of Prospective Financial Information. The objective of this examination is to enable us obtain sufficient appropriate evidence as to whether management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and that the prospective financial information is properly prepared on the basis of the assumptions and are consistent with historical financial statements. These are presented under section M of this report.

B. RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANT

The directors of Kenya Electricity Generating Company Limited are responsible for the Information Memorandum to be issued on or about 24 August 2009 and all information contained therein and for the financial statements and information to which this Accountants' Report relates and from which it has been prepared.

Our responsibility is to compile the financial information set out in our report from the financial statements, and to review the information in accordance with International Standard on Review Engagements 2400 – Engagement to review financial statements (ISRE 2400).

C. COMMENT ON THE QUALIFIED AUDIT REPORT

In February 2009, the directors approved a change in accounting policy affecting the accounting treatment of unrealised exchange gains and losses relating to foreign currency denominated borrowings. In the past KenGen has applied International Accounting Standard (IAS) 21 – Effects of Changes in Foreign Exchange Rates in accounting for all foreign currency denominated balances. These borrowings are now translated at rates ruling at the balance sheet date and the resulting exchange differences recognised in a 'foreign currency revaluation reserve' in equity, rather than in the income statement.

This treatment is not in accordance with IAS 21, which requires that exchange differences arising from translation of monetary liabilities be dealt with in the income statement. However, the directors have based their change in accounting policy, and therefore non-compliance with IAS 21 on a provision in the power purchase agreement which has the effect of compensating KenGen for all realised exchange losses from set base exchange rates. Under the same provision, KenGen remits any realised exchange gains to the power purchaser, Kenya Power & Lighting Company Limited (KPLC). It is the opinion of the directors that KenGen is therefore not exposed to any foreign currency fluctuation risks as a result of this, and charging/crediting the unrealised effects of such fluctuations in KenGen's profit and loss account would not reflect the substance of such transactions.

Had the company complied with the requirements of IAS 21, the resulting unrealised exchange losses would have led to a loss before tax of Kshs 5.4 billion for the six month period ended 31 December 2008. Prior period adjustments in respect of earlier years have been passed in the financial statements for the six month period ended 31 December 2008 to reflect the new accounting policy. The effect of these adjustments is summarised in section D(a) below.

The auditor has issued a qualified opinion on the results of the six months ended 31 December 2008 on the basis of non-compliance with IAS 21. The financial statements for all prior years included in the Accountant's Report have been restated, and accordingly, do not also comply with IAS 21. We concur with the position taken by the auditor in respect to non compliance with IAS 21. In addition, in our view, for the period affected by the new foreign exchange adjustment formula, the matter could have been dealt with within the confines of IFRS by accounting for an embedded derivative to the power purchase agreement, which would have allowed for a derivative asset or liability to be recognised on the balance sheet.

D. STATEMENT OF ADJUSTMENTS

In compiling the accompanying financial statements a number of adjustments have been effected to the audited financial statements. The impact of these adjustments is set out below. The adjustments are based on unaudited information provided to us by management.

a) Adjustments that impact the profit and loss of the company as reported in the audited financial statements:

	Six months ended 31 December 2008	Year ended 30 June 2008	Year ended 30 June 2007	Year ended 30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Profit / (loss) after tax as reported in the audited financial statements	1,077,000	4,809,445	2,445,666	3,768,933
Unrealised exchange (gains) /losses on borrowings	-	1,449,912	(1,406,170)	(551,067)
1 Deferred income tax on unrealised exchange gains/losses on borrowings	-	(362,478)	351,542	137,766
2 Profit / (loss) after tax as now stated in this report	1,077,000	5,896,879	1,391,038	3,355,632

The adjustments above are as a result of the change in accounting policy as indicated in section B above.

b) reclassification that impacts the balance sheet as reported in the audited financial statements

This was a reclassification of bank overdraft balance of Shs 1,269,446,000 as at 30 June 2008, which was previously offset against cash and bank balances in the financial statements for the year.

	As previously stated	As restated
Bank and cash balance	3,699,354	4,968,800
Borrowings due within one year	1,531,116	2,800,562

E. SIGNIFICANT ACCOUNTING MATTERS

Retirement Benefits Obligations

The company operates a defined benefit scheme for its employees. Until 31 December 2000, the company operated a joint defined benefit scheme with Kenya Power & Lighting Company Limited (KPLC), which was funded by contributions from both the sponsoring companies and employees.

The company registered its own defined benefit scheme in 2000 and commenced making contributions to the scheme, alongside employees' contributions, with effect from 1 January 2001.

The scheme's actuary, Alexander Forbes Financial Services (E.A) Limited, carried out an actuarial valuation as at 31 December 2006 using the attained age method. The results of the valuation showed that there was a past service actuarial deficit of Shs 1,155 million. The level of funding (the ratio of the value of the assets to the past service liability) was 68.9%. KenGen has recognised only part of this deficit. Shs 826 million of the deficit relates to a claim by KenGen from KPLC under an agreement for the transfer of schemes assets and liabilities executed by the parties, which is subject of a dispute that is now in arbitration. Management believes that this deficit is the responsibility of KPLC and not KenGen on the basis that the earlier scheme was a KPLC scheme and therefore any deficits relating to the period before KenGen registered its own scheme should be settled by KPLC.

The company has made a provision of Shs 339 million to cover the portion of the deficit it believes is attributable to KenGen.

The main issues in respect of these obligations are as follows;

Matter that we wish to bring to the attention of potential investors, but which does not affect our conclusion

i) The deficit claim from KPLC

The company has not made a provision for Shs 826 million on the basis that this amount is recoverable from KPLC as explained above. However, if KPLC were unable and or unwilling to make good this deficit, it is likely that the responsibility for settling the deficit would fall on KenGen. Management believes that no liability will arise in respect of this matter.

Matters that affect our conclusion

ii) Actuarial valuation method used

The actuarial valuation method required for valuation of defined benefit obligations as per International Accounting Standards (IAS) 19 – Employee Benefits, is 'Projected Unit Credit' method and not the attained age method applied in this case. To the extent that the method of valuation used is not the projected unit credit method, the financial statements are not in compliance with International Financial Reporting Standards (IFRS).The impact of the difference between the obligations computed under the two methods has not been quantified.

In addition some of the disclosure and other requirements of IAS 19 have not been complied with in the financial statements attached.

iii) Regularity of valuation

The last actuarial valuation was carried out as at 31 December 2006 as explained above. IAS 19 (paragraph 56) states that 'an entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date'. The results of previous valuations should be updated for material changes in circumstances (including changes in market prices). In our view there have been material changes in market conditions since the last valuation in 2006 that materially affect the value of the fund's assets.

We understand that management has commissioned an actuarial valuation which has not been completed. Further, we understand that a resolution has been made to convert the scheme into a defined contribution scheme in the next few months.

F. COUNTRY OF INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

G. Profit and loss account

	Notes	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Electricity sales – Non fuel	4	5,919,137	11,548,176	11,141,219	8,222,708
Fuel revenue – Pass through		4,695,025	4,543,387	3,410,548	6,077,352
		10,614,162	16,091,563	14,551,767	14,300,060
Operating expenses	5	(9,046,350)	(12,557,479)	(11,409,594)	(11,564,881)
Gross profit		1,567,812	3,534,084	3,142,173	2,735,179
Interest income		317,642	275,773	593,091	829,569
Other income	6	110,909	58,218	117,747	211,696
Operating profit		**1,996,363**	**3,868,075**	**3,853,011**	**3,776,444**
Finance costs:					
- Foreign exchange adjustments	7	21,141	8,764	13,804	38,003
- Other	7	(449,452)	(798,073)	(553,706)	(644,976)
Profit before tax	**8**	**1,568,052**	**3,078,766**	**3,313,109**	**3,169,471**
Income tax expense – current	9	-	-	(1,465,943)	-
– deferred	9	(491,052)	2,818,113	(456,128)	186,161
Net profit for the year		**1,077,000**	**5,896,879**	**1,391,038**	**3,355,632**
Earnings per share – basic and diluted (Shs)	10	0.49	2.68	0.63	1.53
Dividends per share (Shs)	11	-	0.90	0.80	0.55

H.Balance sheet

CAPITAL EMPLOYED	Notes	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June 2006 Shs'000
Share capital	12	5,495,904	5,495,904	5,495,904	5,495,904
Share premium		5,039,818	5,039,818	5,039,818	5,039,818
Reserves	13	50,215,884	55,888,332	52,863,007	25,042,183
Proposed dividends	11	-	1,978,525	879,343	1,209,099
Shareholders' funds		**60,751,606**	**68,402,579**	**64,278,072**	**36,787,004**
Non-current liabilities					
Borrowings	14	25,326,470	19,466,078	16,040,695	17,366,772
Prepaid operating lease	32	12,000	13,000	15,000	17,000
Retirement benefits liability	18	339,428	339,428	339,428	339,428
Deferred income tax liability	17	11,481,080	11,186,950	14,398,905	5,561,887
		37,158,978	**31,005,456**	**30,794,028**	**23,285,087**
		97,910,584	**99,408,035**	**95,072,100**	**60,072,091**
REPRESENTED BY					
Non-current assets					
Property, plant and equipment	19	91,480,308	91,822,390	87,357,082	50,662,367
Prepaid leases on land	20	1,461	1,475	1,504	1,533
Intangible assets	21	321,020	303,721	215,664	-
Amount due from KPLC - deferred debt	33	701,704	701,704	627,072	-
Treasury bonds	22	1,528,381	3,509,123	3,941,294	2,447,488
		94,032,874	**96,338,413**	**92,142,616**	**53,111,388**
Current assets					
Inventories	23	1,354,145	985,013	1,036,841	1,047,906
Receivables and prepayments	24	1,453,191	735,912	1,618,707	1,083,254
Amount due from KPLC	33	4,830,545	4,677,895	4,129,247	3,290,167
Tax recoverable		147,718	73,190	-	189,286
Treasury bonds	22	2,024,387	427,297	1,200,322	1,657,396
Geothermal development funds	16	-	25,551	-	-
Term deposits	25	32,499	30,926	89,794	85,477
Bank and cash balances	25	3,312,238	4,968,800	1,749,334	4,321,368
		13,154,723	**11,924,584**	**9,824,245**	**11,674,854**
Current liabilities					
Borrowings due within one year	14	2,137,252	2,800,562	1,023,189	1,070,516
Trade and other payables	26	2,920,304	5,310,135	3,105,477	1,784,504
Leave pay provision		110,910	119,252	120,095	-
Amount due to KPLC	33	11,783	7,471	2,433	4,978
Geothermal development funds	16	1,500,697	-	1,443,030	1,852,153
Prepaid operating lease	32	2,000	2,000	2,000	2,000
Dividend payable		2,594,067	615,542	-	-
Tax payable		-	-	1,198,537	-
		9,277,013	**8,854,962**	**6,894,761**	**4,714,151**
Net current assets		**3,877,710**	**3,069,622**	**2,929,484**	**6,960,703**
		97,910,584	**99,408,035**	**95,072,100**	**60,072,091**

I. Statement of changes in equity

	Share capital Shs'000	Share Premium Shs'000	Capital reserve Shs'000	Fair value reserve Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Foreign currency Reserve Shs'000	Total equity Shs'000
Year ended 30 June 2006									
As previously stated	5,495,904	5,039,818	8,579,722	181,788	-	13,631,528	500,000	-	33,428,760
Prior year adjustment – unrealised exchange gain on borrowings	-	-	-	-	-	(602,302)	-	602,302	-
Prior year adjustment – deferred income tax on unrealised exchange gain on borrowings	-	-	-	-	-	150,575	-	-	150,575
As restated	5,495,904	5,039,818	8,579,722	181,788	-	13,179,801	500,000	602,302	33,579,335
Profit for the year	-	-	-	-	-	3,355,632	-	-	3,355,632
Unrealised exchange gain on borrowings	-	-	-	-	-	-	-	551,067	551,067
Treasury bonds fair value changes	-	-	-	(199,030)	-	-	-	-	(199,030)
Dividends:									
2004/2005 – Final declared	-	-	-	-	-	-	(500,000)	-	(500,000)
2005/2006 – Proposed	-	-	-	-	-	(1,209,099)	1,209,099	-	-
At end of year	5,495,904	5,039,818	8,579,722	(17,242)	-	15,326,334	1,209,099	1,153,369	36,787,004

Statement of changes in equity (continued)

Year ended 30 June 2007	Share capita Shs'000	Share Premium Shs'000	Capital reserve Shs'000	Fair value reserve Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Foreign currency Reserve Shs'000	Total equity Shs'000
At previously stated	5,495,904	5,039,818	8,579,722	(17,242)	-	16,191,362	1,209,099	-	36,498,663
Prior year adjustment – unrealised exchange gain on borrowings	-	-	-	-	-	(1,153,369)	-	1,153,369	-
Prior year adjustment – deferred income tax on unrealised exchange gain on borrowings	-	-	-	-	-	288,341	-	-	288,341
As restated	5,495,904	5,039,818	8,579,722	(17,242)	-	15,326,334	1,209,099	1,153,369	36,787,004
Surplus on revaluation	-	-	-	-	35,159,874	-	-	-	35,159,874
Transfer of excess depreciation	-	-	-	-	(1,636,314)	1,636,314	-	-	-
Deferred tax on revaluation surplus	-	-	-	-	(8,380,890)	-	-	-	(8,380,890)
Net profit for the year	-	-	-	-	-	1,391,038	-	-	1,391,038
Unrealised exchange gain on borrowings	-	-	-	-	-	-	-	1,406,170	1,406,170
Treasury bonds fair value changes	-	-	-	3,318	-	-	-	-	3,318
Dividends:									
2005/2006 – Final declared	-	-	-	-	-	-	(1,209,099)	-	(1,209,099)
2006/2007 – Interim declared -	-	-	-	-	-	(879,343)	-	-	(879,343)
2006/2007 – Final proposed	-	-	-	-	-	(879,343)	879,343	-	-
At end of year	5,495,904	5,039,818	8,579,722	(13,924)	25,142,670	16,595,000	879,343	2,559,539	64,278,072

Statement of changes in equity (continued)

	Share capita Shs'000	Share Premium Shs'000	Capital reserve Shs'000	Fair value reserve Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Foreign currency Reserve Shs'000	Total equity Shs'000
Year ended 30 June 2007									
As previously stated	5,495,904	5,039,818	8,579,722	(13,924)	25,142,670	18,514,656	879,343	-	63,638,189
Prior year adjustment – unrealised exchange gain on borrowings	-	-	-	-	-	(2,559,539)	-	2,559,539	-
Prior year adjustment – deferred income tax on unrealised exchange gain on borrowings	-	-	-	-	-	639,883	-	-	639,883
As restated	5,495,904	5,039,818	8,579,722	(13,924)	25,142,670	16,595,000	879,343	2,559,539	64,278,072
Transfer of excess depreciation	-	-	-	-	(1,575,373)	1,575,373	-	-	-
Deferred tax on revaluation surplus	-	-	-	-	393,843	-	-	-	393,843
Net profit for the year	-	-	-	-	-	5,896,879	-	-	5,896,879
Unrealised exchange loss on borrowings	-	-	-	-	-	-	-	(1,449,912)	(1,449,912)
Treasury bonds fair value changes	-	-	-	163,040	-	-	-	-	163,040
Dividends:									
2007/2008 – Interim declared	-	-	-	-	-	-	(879,343)	-	(879,343)
2007/2008 – Final proposed	-	-	-	-	-	(1,978,525)	1,978,525	-	-
At end of year	5,495,904	5,039,818	8,579,722	149,116	23,961,140	22,088,727	1,978,525	1,109,627	68,402,579
Six Months Ended 31Dec 2008									
At start of period	5,495,904	5,039,818	8,579,722	149,116	23,961,140	22,088,727	1,978,525	1,109,627	68,402,579
Transfer of excess depreciation	-	-	-	-	(787,687)	787,687	-	-	-
Deferred tax on revaluation surplus	-	-	-	-	196,922	-	-	-	196,922
Profit for the period	-	-	-	-	-	1,077,000	-	-	1,077,000
Unrealised exchange loss on borrowings	-	-	-	-	-	-	-	(6,942,476)	(6,942,476)
Treasury bonds fair value changes	-	-	-	(3,894)	-	-	-	-	(3,894)
Dividends:									
2007/2008 – Final declared	-	-	-	-	-	-	(1,978,525)	-	(1,978,525)
At end of period	5,495,904	5,039,818	8,579,722	145,222	23,370,375	23,953,414	-	(5,832,849)	60,751,606

J. Cash flow statement

	Notes	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Operating activities					
Cash generated from operations	27	1,410,595	7,952,791	6,090,015	6,041,226
Interest received		-	-	-	-
Interest paid		(502,896)	(269,209)	(687,043)	(2,030,008)
Income tax paid		(74,528)	(1,271,727)	(78,120)	(91,174)
Net cash generated from operating activities		**833,171**	**6,411,855**	**5,324,852**	**3,920,044**
Investing activities					
Purchase of property, plant and equipment		(1,596,162)	(7,896,512)	(5,356,989)	(2,057,076)
Purchase of intangible assets		(17,299)	(88,057)	(215,664)	-
Proceeds from disposal of property, plant and equipment		-	29,050	9,466	-
Interest received		317,642	427,702	658,321	763,811
Proceeds from sale of treasury bonds		394,886	-	1,505,026	3,200,393
Proceeds from redemption of treasury bonds on maturity		25,000	1,238,700	972,500	920,750
Purchase of treasury bonds		-	-	(3,444,926)	(1,822,111)
Net cash (used in)/generated from investing activities		**(875,933)**	**(6,289,117)**	**(5,872,266)**	**1,005,767**
Financing activities					
Payment of long term borrowings		(728,959)	(482,084)	(871,203)	(888,132)
Proceeds from long term borrowings		365,037	2,514,299	2,197,783	1,362,550
Exchange gain capitalised		-	-	(1,226,142)	-
Payment of funds awaiting allotment of shares		-	-	-	(3,524,425)
Dividends paid		-	(263,801)	(2,088,442)	(500,000)
Net cash (used in)/from financing activities		**(363,922)**	**1,768,414**	**(1,988,004)**	**(3,550,007)**
Net (decrease)/increase in cash and cash equivalents		**(406,684)**	**1,891,152**	**(2,535,418)**	**1,375,804**
Movement in cash and cash equivalents					
At start of year		3,730,280	1,839,128	4,406,845	2,441,971
(Decrease)/increase		(406,684)	1,891,152	(2,535,418)	1,375,804
Net foreign exchange adjustment		21,141	-	(32,299)	589,070
At end of year	25	**3,344,737**	**3,730,280**	**1,839,128**	**4,406,845**

K. Notes

1 Summary of significant accounting policies

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretations effective in 2008

In 2008, the following new interpretations became effective for the first time but have not had an impact on the company's financial statements:

- IFRIC 11 – IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of Financial Assets.

Standards, interpretations and amendments to published standards that are not yet effective

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the company's accounting periods beginning on or after 1 January 2009, but the company has not early adopted any of them.

The Directors have assessed the relevance of the new standard and interpretations, and amendments to existing standards with respect to the company's operations and concluded that they will not have any impact on the company's financial statements, other than for the amendments to IAS 1 - Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income.

(b) Change in accounting policy for translation of foreign currencies

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

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

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

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

(c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue is recognised as follows:

(i) Sale of electricity

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

(ii) Interest

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

(iii) Rental income

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

(d) 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 losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Residual value and useful life is reviewed at least annually at the balance sheet date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates. Residual value and useful life is reviewed at least annually at the balance sheet date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in estimates.

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

Freehold land is not depreciated. Depreciation is calculated on the straight-line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

The annual depreciation rates in use are:

Buildings	2.85%
Transmission lines	2.5 – 20%
Plant and machinery:	
- Geothermal wells	6.66%
- Intake and tunnels	1%
Motor vehicles	25%
Furniture, equipment and fittings	12.5%

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

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

(e) Capitalisation of geothermal assets

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

(f) Intangible assets

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

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

(g) Financial instruments

Financial instruments within the scope of IAS 39 are classified as either, loans and receivables, held to maturity investments, held for trading or available for sale as appropriate. Financial assets and liabilities are recognised on the company's balance sheet when the company has become a party to the contractual provisions of the instrument. The company determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year.

Trade receivables

Trade receivables are recognised at fair value and subsequently at amortised cost using the effective interest rate method less provision for impairment. Due to their short nature, the nominal value or cost are considered to approximate the fair value and as such stated at cost less impairment loss.

Borrowings

Interest-bearing loans and overdrafts are initially recorded at cost, being the fair value of consideration received, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost, and any discount or premium on settlement.

Trade payables

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

Held-to-maturity investments

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

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

Available-for-sale investments

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

Unrealised gains and losses arising from changes in the fair value of securities classified as available – for - sale are recognised directly in equity until the asset is derecognised, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement. Interest earned whilst holding available–for-sale financial investments is reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognised in the income statement and removed from the reserves.

Investments at fair value through profit and loss

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale financial investments

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

(h) Derecognition of financial assets

Financial assets

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

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

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

Financial liabilities

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

(i) Accounting for leases

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

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

The company as lessor

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

The company as lessee

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

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

(j) 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.

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(l) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) 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.

(n) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

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

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

(q) Employee benefits

(i) Retirement benefit obligations

The company operates a defined benefits pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees. Benefits are paid to retiring staff in accordance with the scheme's rules. The pension costs are assessed *using the attained age method.* Under this method the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of actuaries. Actuarial deficits are recognised over the average remaining service lives of employees.

The company and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The company's obligation under the scheme is limited to specific contributions legislated from time to time and are currently limited to a maximum of Shs 200 per month per employee. The company's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

(ii) Other entitlements

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

Employee entitlements to long service awards are recognised when they accrue to employees.

(r) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(s) Dividends

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

(t) Grants

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

Revenue grant

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

Capital grant

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

2 Financial risk management

The company's activities expose it to a variety of financial risks: Market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and operational risk. In managing these risks, the company has developed policies that guide the credit and treasury functions.

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

a) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

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

	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June 2006 Shs'000
Assets in foreign currencies				
Trade and other receivables	938,465	302,371	13,408	716,074
Amounts due from related parties	821,387	249,905	252,674	-
Cash and bank balances	68,880	55,805	105,098	260,084
	1,828,732	608,081	371,180	976,158
Liabilities in foreign currencies				
Trade and other payables	782,536	848,698	1,170,052	1,280
Borrowings	27,007,563	20,429,011	16,946,884	18,298,721
	27,790,099	21,277,709	18,116,936	18,300,001
Net foreign currency liability	(25,961,367)	(20,669,628)	(17,745,756)	(17,323,843)

The following exchange rates existed at the end of the year for the following significant currencies:

	Dec 2008	June 2008	June 2007	June 2006
US Dollar	77.71	64.7	66.6	73.80
Euro	109.48	102	89	93.98
Japanese Yen	0.86	0.61	0.54	64.45

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

	Increase/decrease in foreign exchange rate	Effect on foreign currency reserve Shs'000
US Dollar		
2006	-3%	(220,617)
2007	7%	1,136,677
June 2008	-2%	(64,492)
December 2008	-20.12%	(1,008,385)
Yen		
2006	-7%	(394,672)
2007	0.11%	99,739
June 2008	-12%	(3,106,577)
December 2008	-40.90%	(5,903,809)
Euro		
2006	2%	973
2007	4.5%	15,419
June 2008	-12%	(311,057)
December 2008	-7.17%	(30,450)

(i) Price risk

The company does not hold any financial instruments subject to price risk.

b) Credit risk

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

The company sells generated power to KPLC the only authorised power distributor and therefore minimizes the credit risk exposure. Both companies have a contract that stipulates a two-month credit period. In addition, receivable balances from company staff are recovered on payment of salaries.

The amount that best represents the company's maximum exposure to credit risk at 31 December 2008 is made up as follows:

	31 December 2008 Shs'000	**30 June 2008 Shs'000**	**30 June 2007 Shs'000**	**30 June 2006 Shs'000**
Bank balances	3,312,238	4,968,800	1,749,334	4,321,368
Trade receivables	4,830,545	4,677,895	4,129,247	3,290,167
Other receivables	1,453,191	735,912	1,618,707	1,083,254
Treasury bonds	3,552,768	3,936,420	5,141,616	4,104,884
KPLC – deferred debt	701,704	701,704	627,072	-
Term deposits	32,499	30,926	89,794	85,477
	13,882,945	**15,051,657**	**13,355,770**	**12,885,150**

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 accounts receivables from KPLC and development funding from the Ministry of Energy and maturity of financial instruments, together with projected cash flows from operations. The company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and other borrowings.

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Over 2 years Shs'000
At 31 December 2008:			
- borrowings (excluding finance leases)	2,137,253	2,137,253	23,189,217
- trade and other payables	7,026,851	-	-
At 30 June 2008:			
- borrowings (excluding finance leases)	1,531,116	1,531,116	17,934,962
- trade and other payables	5,933,148	-	-
At 30 June 2007:			
- borrowings (excluding finance leases)	1,023,189	1,023,189	15,017,506
- trade and other payables	5,749,477	-	-
At 30 June 2006:			
- borrowings (excluding finance leases)	1,070,516	1,070,516	16,296,256
- trade and other payables	3,641,635	-	-

d) Operational risk

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

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

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

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

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

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

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 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.

	31 December 2008 Shs'000	**30June 2008 Shs'000**	**30 June 2007 Shs'000**	**30 June 2006 Shs'000**
Borrowings	25,326,470	19,466,078	16,040,695	17,366,772
Trade and other payables	3,875,274	4,739,358	3,565,000	2,128,910
Less: cash and short-term deposits	(3,344,737)	(3,730,280)	(1,839,128)	(4,406,845)
Net debt	25,857,007	20,475,156	17,766,567	15,088,837
Equity	60,751,606	68,402,579	64,278,072	36,787,004

3 Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

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

Property, Plant and equipment

Annually, directors make estimates in determining the depreciation rates for property, plant and equipment using internal technical expertise. The rates used are set out in the accounting policy for property, plant and equipment in Note 1 (d) above.

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

Impairment of available-for-sale financial assets

The company classifies certain assets as available-for-sale and recognises movements in their fair value in equity. The company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in income statement.

Impairment of non-financial assets

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

Retirement benefit obligations

Critical assumptions are made by the actuary in determining the present value of retirement benefit obligations, including the discount rate. These assumptions are set out in Note 18.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The carrying amount of impaired receivables is set out in Note 24. Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The carrying amount of impaired receivables is set out in Note 24.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgements in determining:

• the classification of financial assets and leases

• whether assets are impaired.

The directors have made the following judgements:

Allowance for obsolete inventories

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

Allowance for doubtful receivables

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

4 Electricity sales

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Non-fuel				
Electricity sales	5,415,690	11,371,532	10,852,766	7,986,968
Foreign exchange adjustments	424,651	81,034	192,322	235,740
Income from Emergency Power Project (EPP)	78,796	95,610	96,131	-
	5,919,137	11,548,176	11,141,219	8,222,708
Fuel revenue	4,695,025	4,543,387	3,410,548	6,077,352
	10,614,162	16,091,563	14,551,767	14,300,060
Units sold (GWh)	2,456	4,818	4,599	4,538

5 Operating expenses

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Fuel costs – pass through	4,695,025	4,541,572	3,398,133	6,077,352
Staff costs (Note 7(b))	1,201,569	2,222,280	2,044,432	1,728,957
Depreciation	1,938,244	3,404,308	3,446,354	2,000,212
Plant operation and maintenance	630,654	1,199,340	1,079,728	857,614
Insurance	131,152	222,939	228,100	226,375
Catchments preservation and dam maintenance	56,198	107,000	107,031	111,850
Staff welfare and training	206,435	297,512	241,854	194,454
Other costs	187,073	562,528	488,949	368,067
Impairment loss on revaluation	-	-	375,013	-
	9,046,350	12,557,479	11,409,594	11,564,881

6 Other costs / income

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Insurance compensation	-	1,620	73,446	119,358
Miscellaneous income	110,909	56,598	44,301	92,338
	110,909	58,218	117,747	211,696

7 Finance costs

a) Foreign exchange gains/(loss) on				
other monetary items excluding borrowings	21,141	8,764	13,804	38,003

The exchange rates (against the Kenya Shilling) ruling at each period end were as follows:

US Dollar	77.71	66.80	66.60	73.90
Euro	109.48	102	89	94
Japanese Yen	0.86	0.61	0.54	0.64

b) Other				
Interest on borrowings	390,870	687,856	553,706	644,976
Interest on bank overdraft	58,582	110,217	-	-
	449,452	798,073	553,706	644,976

8 Profit before taxation

a) Profit before taxation is arrived at after charging:				
Depreciation	1,938,244	3,404,308	3,446,354	2,000,212
Amortisation of prepaid leases				
on land (Note 20)	14	29	29	29
Staff costs (Note 8(b))	1,201,569	2,222,280	2,044,432	1,728,957
Directors emoluments:				
- Fees	1,800	3,600	3,450	3,240
- Other	-	19,687	18,325	9,295
Auditor's remuneration	-	3,520	3,200	2,300
Operating lease rentals	-	43,166	38,606	37,430
Interest on non-current borrowings	390,870	687,856	553,706	644,976
And after crediting:				
Net exchange gains	21,141	8,764	13,804	38,003
Interest income	317,642	275,773	593,091	829,569

b) **Staff costs**

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 2008 Shs'000	Year ended 30 June June 2007 Shs'000	Year ended 30 June 2006 Shs'000
Salaries and wages	1,038,037	1,884,635	1,690,987	1,521,548
Leave pay allowance	60,959	80,891	120,095	(3,658)
Pension costs:				
- Defined benefit scheme	99,417	252,091	229,204	207,042
- National Social Security Fund	3,156	4,663	4,146	4,025
	1,201,569	2,222,280	2,044,432	1,728,957
The average number of employees during the year was:				
Permanent employees	1,590	1,508	1,532	1,512

9 Income tax expense

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June June 2006 Shs'000
Current income tax	-	-	1,363,772	-
Compensating tax	-	-	102,171	-
Deferred income tax (Note 17)	491,052	2,818,113	456,128	796,943
Deferred tax credit resulting from	-	-	-	-
reduction in tax rate	-	-	-	(983,104)
Income tax credit / expense	491,052	(2,818,113)	1,922,071	(186,161)

The tax on the company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	Six months ended 31 December 2008	Year ended 30 June 2008	Year ended 30 June 2007	Year ended 30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before income tax	1,568,052	3,078,766	3,313,109	3,169,471
Tax calculated at the statutory income tax rate of 25%	392,013	407,214	1,179,820	792,368
Tax effect of:				
Income not subject to tax	-	(3,288,184)	(3,654)	(978,529)
Expenses not deductible for tax purposes	99,039	62,857	745,905	-
Income tax expense/(credit)	491,052	(2,818,113)	1,922,071	(186,161)

10 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Dec 2008	June 2008	June 2007	June 2006
Profit attributable to equity holders (Shs'000)	1,077,000	5,896,879	1,391,038	3,355,632
Weighted average number of ordinary shares in issue (000)	2,198,361	2,198,361	2,198,361	2,198,361
Basic earnings per share (Shs)	0.49	2.68	0.63	1.53

There were no potentially dilutive shares outstanding at 31 December 2008. Diluted earnings per share are therefore the same as basic earnings per share.

11 Dividends per share

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

	Six months ended 31 December 2008	Year ended 30 June 2008	Year ended 30 June 2007	Year ended 30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Interim dividend	-	-	879,343	-
Proposed final dividend	-	1,978,525	879,343	1,209,099
	-	1,978,525	1,758,686	1,209,099

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

12 Share capital

	Number of shares (Thousands)	Ordinary shares Shs'000	Share premium Shs'000
Balance at 1 July 2005	2,198,361	5,495,904	5,039,818
Balance at 1 July 2006	2,198,361	5,495,904	5,039,818
Balance at 1 July 2007	2,198,361	5,495,904	5,039,818
Balance at 1 July 2008	2,198,361	5,495,904	5,039,818
Balance at 31 December 2008	2,198,361	5,495,904	5,039,818

The total authorised number of ordinary shares is 2,215,927,528 with a par value of Shs 2.50 per share, out of which 2,198,361,456 are issued and fully paid.

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.

13 Other reserves

	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June June 2006 Shs'000
Capital reserve	8,579,722	8,579,722	8,579,722	8,579,722
Financial instruments revaluation reserve	145,222	149,116	(13,924)	(17,242)
Retained earnings	23,953,414	22,088,727	16,595,000	15,326,334
Revaluation reserve – property, plant and equipment	23,370,375	23,961,140	25,142,670	-
Foreign currency reserve	(5,832,849)	1,109,627	2,559,539	1,153,369
	50,215,884	55,888,332	52,863,007	25,042,183

The capital reserve relates to development surcharge received from KPLC for financing the development of certain power projects for the period 1997 and prior years.

Financial instruments revaluation reserve arises from fair value changes on treasury bonds. These bonds are classified as available-for-sale. On disposal the cumulative changes in fair value are recognised in the income statement.

The revaluation reserve on property, plant and equipment arose on the revaluation of plant and machinery in 2007. The revaluation reserve is used to record movements in the fair value of plant and machinery as measured against the carrying amount of the related assets and is non-distributable.

14 Borrowings

	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	June 30 2006 Shs'000
Government of Kenya Guaranteed				
2.6% Japan Bank for International Cooperation. No. KE P20 2007/2025 (JPY 7,230,372,000)	6,039,824	4,416,470	4,128,100	5,208,611
2.3% Japan Bank for International Cooperation. KE P21 2008/2027 (JPY 6,425,686,000)	5,384,758	3,924,950	3,636,768	4,232,011
0.75% Japan Bank for International Cooperation. KE P23 2014/2044 (JPY 9,991,104,024)	8,915,709	6,102,786	3,629,590	2,153,576
2.3% Japan Bank for International Co-operation KE P24. (Approved JPY 5,620,000,000; disbursed JPY 93,036,864)	130,988	56,829	-	-
On Lent				
7.7% International Development Association 2003/2018 (US$ 80,268,775)	5,670,704	5,192,940	5,343,043	6,469,372
7.7% Kreditanstalt Fur Wiederaufbau 2004/2019(Approved Euro 11,918,975; disbursed Euro 1,113,423.29)	121,900	113,744	109,157	124,577
4.5% International Development Association Credit IDA 3958, 2009 /2027 (Approved US$ 26,907,930; Disbursed US$ 4,866,263.75)	415,235	314,820	100,226	110,574
4.5% KBC Bank loan (Belgium) Ngong Wind Power (Approved Euro 11,314,682; disbursed Euro 3,000,000)	328,447	306,471	-	-
Total loans	27,007,565	20,429,010	16,946,884	18,298,721
Accrued interest	456,157	568,184	117,000	138,567
Bank overdraft	-	1,269,446	-	-

Total borrowings	27,463,722	22,266,640	17,063,884	18,437,288
Less: Amounts due within one year	(2,137,252)	(2,800,562)	(1,023,189)	(1,070,516)
Non-current borrowings	25,326,470	19,466,078	16,040,695	17,366,772

Maturity of non-current borrowings

Due between 1 and 2 years	2,137,253	1,531,116	1,023,189	1,070,516
Due between 2 and 5 years	6,411,757	4,593,347	3,069,566	3,211,547
Due after 5 years	16,777,460	13,341,615	11,947,940	13,084,709
	25,326,470	19,466,078	16,040,695	17,366,772

	Amounts in US$ Shs'000	**Amounts in JPY Shs'000**	**Amounts in Euro Shs'000**	**Total Shs'000**
Analysis of loans by currency				
December 2008	6,085,939	20,471,279	450,345	27,007,563
June 2008	5,507,760	14,501,036	420,215	20,429,011
June 2007	5,443,268	11,394,459	109,157	16,946,884
June 2006	6,579,946	11,594,198	124,577	18,298,721

15 World bank financing credit line IDA 3958

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

	Six months ended 31 December 2008 Shs'000	**Year ended 30 June 2008 Shs'000**	**Year ended 30 June 2007 Shs'000**	**Year ended 30 June 2006 Shs'000**
Balance at start of period	39,727	11,637	24,035	46,600
Amounts received during the period	38,014	73,934	-	38,966
Net interest income	446	9,790	447	3,590
Expenditure during the period	(22,769)	(55,634)	(12,845)	(65,121)
At end of period	55,418	39,727	11,637	24,035

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.

16 Geothermal development funds

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
At start of period	(25,551)	1,443,030	1,852,153	1,229,450
Received during the period	2,268,000	28,000	2,000	963,193
Expenditure during the period	(741,752)	(1,496,581)	(411,123)	(340,490)
	1,500,697	(25,551)	1,443,030	1,852,153

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

17 Deferred income tax

Deferred income tax is calculated using the company's income tax rate of 25%. The movement on the deferred income tax account is as follows:

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
At start of year				
- as previously stated	11,186,950	15,038,788	5,850,228	5,898,623
- prior year adjustment	-	(639,883)	(288,341)	(150,575)
As restated	11,186,950	14,398,905	5,561,887	5,748,048
Charge/(credit) to profit and loss account (Note 9)	491,052	(2,818,113)	456,128	(186,161)
Charge/(credit) to equity	(196,922)	(393,842)	8,380,890	-
At end of year	11,481,080	11,186,950	14,398,905	5,561,887

Deferred income tax assets and liabilities and deferred income tax charge/(credit) in the profit and loss account are attributable to the following items:

Deferred income tax liabilities	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June 2006 Shs'000
On revaluation surplus	7,790,125	7,987,047	8,380,890	-
Unrealised exchange gains	5,285	2	(277,653)	(136,613)
Accelerated capital allowances	5,575,956	5,894,728	6,448,671	6,609,059
	13,371,366	13,881,777	14,551,908	6,472,446
Deferred income tax assets				
Tax losses	(1,739,580)	(2,530,940)	-	(759,965)
Other temporary differences	(150,706)	(163,887)	(153,003)	(150,594)
	(1,890,286)	(2,694,827)	(153,003)	(910,559)
Net deferred income tax liability	11,481,080	11,186,950	14,398,905	5,561,887

18. Retirement benefit obligations

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

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

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

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

The principal actuarial assumptions in the 2006 valuation were:

	% p.a	% p.a.
Investment return	10	10
Rate of salary escalation	8	8
Rate of pension increases	0	3

The company continues to contribute 25% and employees 5% towards the scheme, as recommended by the Actuaries.

A provision of Shs 339 million was made against the deficit of Shs 1,155 million identified by the Actuaries. Part of the deficit, amounting to Shs 826 million, is a claim from KPLC which is a subject of ongoing discussions with the company on a platform of arbitration, provided for by an agreement for transfer of schemes assets and liabilities executed by all the parties in 2004. Clause 7.1 of the agreement provides for arbitration as the first option in dispute resolution. The company has agreed to invoke this provision in order to facilitate the outcome of acceptable compensation principles that will be satisfactory to all parties concerned. Discussions on the long outstanding issue have been commenced with the expectation that the arbitration process will be completed before the end of the financial year.

Notes (continued)

19 Property, plant and equipment (continued)

	Freehold land & 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
At 1 July 2005							
Cost or valuation	8,510,589	610	40,738,047	206,193	1,372,753	11,540,932	62,369,124
Accumulated depreciation	2,470,750	93	8,120,811	133,530	1,038,437	-	11,763,621
Net book amount	6,039,839	517	32,617,236	72,663	334,316	11,540,932	50,605,503
Year ended 30 June 2006							
Opening net book amount	6,039,839	517	32,617,236	72,663	334,316	11,540,932	50,605,503
Additions	-	-	-	-	-	2,057,076	2,057,076
Transfers from work in progress	22,147	6,777	174,953	44,889	64,583	(313,349)	-
Depreciation charge	(404,911)	(650)	(1,516,364)	(16,856)	(61,431)	-	(2,000,212)
Closing net book amount	5,657,075	6,644	31,275,825	100,696	337,468	13,284,659	50,662,367
At 30 June 2006							
Cost or valuation	8,532,736	7,387	40,913,000	251,082	1,437,336	13,284,659	64,426,200
Accumulated depreciation	2,875,661	743	9,637,175	150,386	1,099,868	-	13,763,833
Net book amount	5,657,075	6,644	31,275,825	100,696	337,468	13,284,659	50,662,367

19 Property, plant and equipment (continued)

	Freehold land & 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
At 1 July 2006							
Cost or valuation	8,532,736	7,387	40,913,000	251,082	1,437,336	13,284,659	64,426,200
Accumulated depreciation	2,875,661	743	9,637,175	150,386	1,099,868	-	13,763,833
Net book amount	5,657,075	6,644	31,275,825	100,696	337,468	13,284,659	50,662,367
Year ended 30 June 2007							
Opening net book amount	5,657,075	6,644	31,275,825	100,696	337,468	13,284,659	50,662,367
Additions	-	-	-	-	-	5,356,989	5,356,989
Reclassification	470,584	-	(686,992)	-	216,408	-	-
Transfers from work in progress	1,292	7,267	15,268	47,860	9,028	(80,715)	-
Revaluation surplus	-	-	35,159,874	-	-	-	35,159,874
Impairment loss on revaluation	-	-	(375,013)	-	-		(375,013)
Disposals	-	-	(210)	(570)	-	-	(9,904)
Depreciation charge	(402,751)	(920)	(2,951,166))	(27,459)	(64,058)	-	(3,446,354)
Closing net book amount	5,726,200	12,991	62,437,586	120,526	498,846	18,560,933	87,357,082
At 30 June 2007							
Cost or valuation	8,784,914	14,654	75,083,752	293,233	1,820,660	18,560,933	104,558,146
Accumulated depreciation	3,058,714	1,663	12,646,166	172,707	1,321,814	-	17,201,064
Net book amount	5,726,200	12,991	62,437,586	120,526	498,846	18,560,933	87,357,082

Notes (continued)

19 Property, plant and equipment (continued)

	Freehold land & 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
At 1 July 2007							
Cost or valuation	8,784,914	14,654	75,083,752	293,233	1,820,660	18,560,933	104,558,146
Accumulated depreciation	3,058,714	1,663	12,646,166	172,707	1,321,814	-	17,201,064
Net book amount	5,726,200	12,991	62,437,586	120,526	498,846	18,560,933	87,357,082
Year ended 30 June 2008							
Opening net book amount	5,726,200	12,991	62,437,586	120,526	498,846	18,560,933	87,357,082
Additions	-	-	-	-	-	7,896,512	7,896,512
Transfers from work in progress	7,096,212	66,407	9,816,527	101,182	209,345	(17,289,673)	-
Disposals	(26,896)	-	-	-	-	-	(26,896)
Depreciation charge	(360,906)	(1,498)	(2,927,977)	(46,057)	(67,870)	-	(3,404,308)
Closing net book amount	12,434,610	77,900	69,326,136	175,651	640,321	9,167,772	91,822,390
At 30 June 2008							
Cost or valuation	15,854,230	81,061	84,900,279	394,415	2,030,005	9,167,772	112,427,462
Accumulated depreciation	3,419,620	3,161	15,574,143	218,764	1,389,684	-	20,605,372
Net book amount	12,434,610	77,900	69,326,136	175,651	640,321	9,167,772	91,822,390

Notes (continue

19 Property, plant and equipment (continued)

	Freehold land & 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
At 1 July 2008							
Cost or valuation	15,854,230	81,061	84,900,279	394,415	2,030,005	9,167,772	112,427,762
Accumulated depreciation	(3,419,620)	(3,161)	(15,574,143)	(218,764)	(1,389,684)	-	(20,605,372)
Net book amount	12,434,610	77,900	69,326,136	175,651	640,321	9,167,772	91,822,390
Period ended 31 December 2008							
Opening net book amount	12,434,610	77,900	69,326,136	175,651	640,321	9,167,772	91,822,390
Additions	-	-	-	-	-	1,596,162	1,596,162
Transfers from work in progress	-	-	1,164	41,630	8,647	(51,441)	-
Disposals	-	-	-	-	-	-	-
Depreciation charge	(252,221)	(1,548)	(1,611,190)	(26,785)	(46,500)	-	(1,938,244)
Closing net book amount	12,182,389	76,352	67,716,110	190,496	602,468	10,712,493	91,480,308
At 31 December 2008							
Cost or valuation	15,854,230	81,061	84,900,279	436,045	2,038,652	10,712,493	114,022,760
Accumulated depreciation	(3,671,841)	(4,709)	(17,185,333)	(245,549)	(1,436,184)	-	(22,543,616)
Net book amount	12,182,389	76,352	67,716,110	190,496	602,468	10,712,493	91,480,308

19 Property, plant and equipment (continued)

Included in property, plant and equipment are motor vehicles, furniture, equipment and fittings are assets with a cost of Shs 7,906,882,264 (June 2008 - Shs 6,375,419,599), which were fully depreciated and still in use. The normal annual depreciation charge on these assets would have been Shs 38,145,482 (June 2008 - Shs 76,290,964). Capital works-in-progress relates to construction works of electricity generation plants and other related activities. Further, additions to property, plant and equipment are the assets of Sondu Miriu power plant which was capitalised on 31 March 2008.

The revaluation of plant and machinery was last carried out by CB Richard Ellis International valuers, whose report was issued on 21 May 2007. The revaluation amounts were adopted by the Board and incorporated in the financial statements for the year ended 30 June 2007.

20 Prepaid lease on land

	December 31 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June 2006 Shs'000
Cost				
At start of period	1,768	1,768	1,768	1,768
Amortisation				
At start of period	293	264	235	206
Charge for period	14	29	29	29
At end of period	307	293	264	235
Net book amount				
At end of period	1,461	1,475	1,504	1,533

21 Intangible assets

	Dec 2008 Shs'000	June 2008 Shs'000	June 2007 Shs'000	June 2006 Shs'000
At end of period	321,020	303,721	215,664	-

Intangible assets relate to costs incurred towards the installation of the Scada software at the power stations.

22 Treasury bonds

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

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Within one year	2,024,387	427,297	1,200,322	1,657,396
After one year but within two years	-	1,608,067	442,916	75,619
After two years but within five years	1,387,010	1,761,778	2,663,583	429,587
After five years	141,371	139,278	834,795	1,942,282
	3,552,768	3,936,420	5,141,616	4,104,884
Within one year	(2,024,387)	(427,297)	(1,200,322)	(1,657,396)
	1,528,381	3,509,123	3,941,294	2,447,488

23 Inventories

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
Fuel	811,946	449,932	534,114	541,723
General stores	53,998	57,322	58,407	51,822
Machinery spares	425,045	462,993	424,523	435,982
Goods in transit	63,156	14,766	19,797	18,379
	1,354,145	985,013	1,036,841	1,047,906

24 Receivables and prepayments

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
Receivable from staff	138,715	150,031	114,385	150,815
Other receivables and prepayments	328,492	345,491	140,905	262,049
Advance payments to contractors	938,466	303,592	371,982	716,074
VAT claim	96,168	-	1,054,637	-
Cash under lien with				
Kenya Commercial Bank	25,000	-	-	-
	1,526,841	799,114	1,681,909	1,128,938
Less: provision for impairment				
loss on receivables from staff	(73,650)	(63,202)	(63,202)	(45,684)
	1,453,191	735,912	1,618,707	1,083,254

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

24 Receivables and prepayments (continued)

At end of each period, the ageing analysis of other receivables and prepayments is as follows:

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Carrying amount	328,492	345,493	140,905	262,049
Neither past due nor impaired	150,649	252,112	101,609	248,417
Past due and not impaired				
31 to 60 days	84,442	23,119	11,473	716
61 to 90 days	5,553	5,560	6,242	5,598
Over 90 days	87,848	64,702	21,581	7,318
	328,492	345,493	140,905	262,049

25 Cash and cash equivalents

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Bank and cash balances	3,312,238	4,968,800	1,749,334	4,321,368
Bank overdraft	-	(1,269,446)	-	-
	3,312,238	3,699,354	1,749,334	4,321,368
Term deposits	32,499	30,926	89,794	85,477
	3,344,737	3,730,280	1,839,128	4,406,845

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

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

26 Payables and accrued expenses

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Trade payables	1,590,260	2,206,498	829,360	1,427,003
Contract payables & retention money	794,892	1,633,619	2,064,179	190,083
Sundry payables	141,322	76,084	46,780	67,134
Emergency power project	393,830	1,029,457	-	-
VAT payable	-	364,477	165,158	100,284
	2,920,304	5,310,135	3,105,477	1,784,504

27 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Profit before tax	1,568,052	1,628,854	4,719,279	3,720,538
Adjustments for:				
Depreciation	1,938,244	3,404,308	3,446,354	2,000,212
Impairment on revaluation	-	375,013	-	-
Amortisation of prepaid lease on land	15	29	29	29
Gain on disposal of property, plant and equipment	-	(2,154)	(8,684)	-
Interest income	(317,642)	(275,773)	(593,091)	(829,569)
Interest expense	390,870	687,856	553,706	644,976
Exchange gains on loans	(21,141)	-	(1,452,274)	(614,316)
Exchange losses	-	1,441,148	32,299	(589,070)
Net loss/(gain) on redemption of treasury bonds	(40,128)	18,908	(19,476)	(295,393)
Operating profit	3,518,270	6,903,176	7,053,155	4,037,407
Changes in working capital:				
- Inventories	(369,132)	51,828	11,065	(289,873)
- Amounts due from KPLC	(152,650)	(623,280)	(2,520,789)	(901,438)
- Receivables and prepayments	(717,279)	882,795	519,184	1,765,673
- Payables and accrued expenses	(2,389,831)	2,204,658	1,431,434	858,160
- Leave pay provision	(8,342)	(843)	9,634	-
- Prepaid lease	(1,000)	(2,000)	(2,000)	(2,000)
- Amounts due to KPLC	4,312	5,038	(2,545)	-
- UNEP grants	-	-	-	(49,406)
- Research funds	1,526,247	(1,468,581)	(409,123)	622,703
Cash flows generated from operations	1,410,595	7,952,791	6,090,015	6,041,226

28 Contingent liabilities

i) Disputed income tax assessment

The Income Tax Department issued an additional tax assessment of Shs 3,423,505, 245 inclusive of penalties and interest in respect of the years of income 1999 and 2000. This resulted from the withdrawal of allowance for inventories and capital tax allowances claimed by the company on assets acquired from the Government and KPLC during the Energy Sector Reform Program and subsequent assets separation exercise. The company applied for waiver of penalties and interest, and in response the Minister for Finance granted full waiver of the same as at 31 October 2005, amounting to Shs 2,337,271,818. The company appealed to the Local Committee seeking waiver of the principal tax of Shs 1,638,754,000 and the decision of the Local Committee was in favour of the company that no tax liability was due. However, KRA has appealed to High Court against this decision and the company has filed a defence. The directors are of the opinion that the liability subject to the appeal will not materialise.

ii) Disputed tax penalties

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

iii) Disputed withholding tax on contractual fees

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

iii) Letters of Credit

Letters of credit signifies commitment by the company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 31 December 2008 amounted to Shs 280,695,641(31 June 2008: Shs 8,657,239,292).

29 Emergency power project

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
At start of period	(343,836)	881,799	3,473,697	-
Disbursement from Ministry of Energy	3,010,000	5,950,975	-	3,699,267
Receipts from KPLC	11,138,299	8,580,881	7,555,845	-
Net interest income	33,290	49,582	103,739	13,135
Expenditure during the period	(13,518,057)	(15,807,073)	(10,251,482)	(238,705)
	319,696	(343,836)	881,799	3,473,697

Funds from the Ministry of Energy were disbursed to the company for the purpose of procuring 180Mw of emergency power supply capacity through an Emergency Power Project during the year 2007. According to the relationship agreement, in which the company is an implementing commission agent, the Ministry of Energy may extend the agreement period for another one year or more through a written notice to the company. These funds are held in an escrow bank account at the Commercial Bank of Africa. Over expenditure is recoverable from the Ministry.

30 Power Purchase Agreement

An Interim Power Purchase Agreement (IPPA) was signed between KenGen and KPLC on 13 July 1999, at an agreed price of Shs 2.36 per kWh. By mutual consent, the Second Supplementary Agreement to the IPPA was entered into on 1 July 2004 that reduced the bulk tariff to Shs 1.76 per kWh for three years, and expired on 30 June 2006. Subsequently, the bulk tariff reverted to the initial rate of Shs 2.36 per kWh with effect from 1 July 2006 as stipulated in the Third Supplemental Agreement to the IPPA signed on 18 January 2006.

On 30 June 2008, Energy Regulatory Commission (ERC) approved a new Bulk Tariff based on capacity charge plus fixed Operations and Maintenance and variable Operation and Maintenance. The company disputed the new tariff as it gave a lower yield than Shs 2.36 per kWh. The company took the issue to the Energy Tribunal for ruling as per the Energy Act 2006 provisions. In the meantime, the company has continued to bill KPLC using the tariff as per the IPPA which is still in force until such time that a full term PPA is signed by both KenGen and KPLC.

KenGen, KPLC and ERC have now negotiated an amicable settlement to the tariff dispute and have agreed on new bulk tariffs. The new Power Purchase Agreements were initialled and submitted on 19 March 2009 to ERC and will be executed once the ERC approval is granted. The amounts previously in dispute have been settled by the Government of Kenya.

31 Commitments

Capital commitments

Capital commitments relate to projected expenditure for completion of on-going projects and already identified new projects. Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	31 December 2008 Shs'000	30 June 2008 Shs'000	30 June 2007 Shs'000	30 June 2006 Shs'000
Authorised but not contracted for	9,167,175	5,114,133	10,415,576	7,069,035
Contracted for	22,233,958	25,176,296	14,734,676	10,373,852
	31,401,133	30,290,429	25,150,252	17,442,887

32 Operating lease commitments

a) As lessee

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

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Within 1 year	6,834	6,834	6,834	6,834
After 1 year but not later than 5 years	4,994	8,411	15,245	22,079
	11,828	15,245	22,079	28,913

b) As lessor

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

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
Within 1 year	2,000	2,000	2,000	2,000
After 1 year but not later than 5 years				
	8,000	8,000	8,000	8,000
After 5 years	4,000	5,000	7,000	9,000
	12,000	13,000	15,000	17,000

32 Operating lease commitments (continued)

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

33 Related party transactions

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
a) Amount due from KPLC:				
Electricity sales	4,297,197	4,321,305	4,129,247	3,290,167
Current portion of deferred debt	533,348	356,590	-	-
	4,830,545	4,677,895	4,129,247	3,290,167
b) Amount due from KPLC – Deferred debt				
Long term portion	1,235,052	1,058,294	627,072	-
Less: current portion	(533,348)	(356,590)	-	-
	701,704	701,704	627,072	-

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

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
c) Amount due to KPLC:				
Electricity purchases and others	11,783	7,471	2,433	4,978

33 Related party transactions (continued)

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

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

	Six months ended 31 December	Year ended 30 June 2008	Year ended ended 30 June 2007	Year ended 30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
i) Electricity sales to KPLC	10,535,366	15,995,953	14,455,636	14,300,060
ii) Electricity purchase from KPLC	76,552	78,860	59,256	52,905
iii) Government of Kenya:				
Funds received for geothermal resources assessment	2,268,000	28,000	2,000	963,193
Interest expense on project borrowings	428,116	689,577	440,436	499,093
Project borrowings received	-	-	-	200,838
Geothermal resource assessment assets	741,743	1,496,581	411,123	340,490

Other details relating to transactions with the Government of Kenya are disclosed in notes 14.

	31 December 2008	30 June 2008	30 June 2007	30 June 2006
	Shs'000	Shs'000	Shs'000	Shs'000
iv) Staff advances				
Key management	750	758	422	896
Other staff	89,388	119,477	89,388	87,562
	90,138	120,235	89,810	88,458

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

33 Related party transactions (continued)

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000
v) Key management compensation				
Salaries and wages	34,458	49,631	46,852	46,491
Pension scheme contributions	4,038	10,088	8,668	8,716
Other allowances	16,134	31,719	27,319	22,618
	54,630	91,438	82,839	77,825

PRINCIPAL SHAREHOLDERS

The shareholdings in the company and the respective number of shares held at 31 December 2008 are as follows:

	Number of Shares	%
1. Permanent Secretary, Treasury	1,538,853,019	70.00%
2. National Social Security Fund	17,334,800	0.79%
3. Barclays (K) Nominees Limited- A/C 9230	10,175,300	0.46%
4. Barclays (K) Nominees Limited- A/C 1853	8,899,831	0.40%
5. Kenya Commercial Bank Nominees Limited - A/C 769G	7,667,592	0.35%
6. Alfaways Limited	5,000,000	0.23%
7. Jennid Trading Limited	5,455,794	0.25%
8. Lancaster Investment Limited	4,502,106	0.20%
9. Sandhurst Investments Limited	4,501,294	0.20%
10. Kensington Developers Limited	4,148,427	0.20%
	1,606,538,163	73.08%
220,089 other shareholders	591,823,293	26.92%
	2,198,361,456	100.00%

Distribution of shareholders

Range	No. of Shareholders	Shares	% Shareholding
1 - 500	90,653	25,115,319	1.14
501 - 1,000	46,776	37,242,028	1.69
1,001 - 5,000	54,014	116,220,115	5.29
5,001 - 10,000	21,767	142,554,246	6.48
10,0001 - 50,000	3,674	70,885,112	3.22
50,001 - 100,000	296	20,551,058	0.93
100,001 - 500,000	283	61,185,023	2.79
500,001 - 1,000,000	54	39,554,610	1.81
Above 1,000,000	51	1,685,053,945	76.65
Total	217,568	2,198,361,456	100.00

L. FINANCIAL RATIOS

The following ratios are based on the revised financial statements after processing the adjustments as indicated in section D above.

		Six months ended 31-Dec-08	**Year ended 30-Jun-08**	**Year ended 30-Jun-07**	**Year ended 30-Jun-06**
1	EBIT interest cover	4.4	4.8	7.0	5.9
2	Operating cash flow to total debt	5.4%	34.0%	33.9%	30.8%
3	Free cash flow to total debt	(1.1)%	(6.5)%	2.5%	20.1%
4	Total free cash flow to total short term debt obligation	143.5%	133.0%	223.6%	775.3%
5	Net profit margin	18.2%	51.1%	12.5%	40.8%
6	Post tax return on capital employed	1.8%	8.0%	2.9%	7.6%
7	Long term debt capital employed ratio	25.8%	21.1%	24.8%	33.1%
8	Total debt to equity ratio	38.5%	29.6%	35.1%	55.1%

M. PROFORMA FINANCIAL INFORMATION

PROFORMA BALANCE SHEET	At 30 June 2010
CAPITAL AND RESERVES	
Share capital	6,045,495
Share premium	3,847,134
Reserves	66,145,121
Shareholders' funds	76,037,750
Non-current liabilities	
Borrowings	61,145,561
Deferred income tax	13,630,331
	-
	74,775,892
	150,813,642
REPRESENTED BY:	
Non-Current Assets	
Property, plant and equipment	105,354,238
Work in progress	27,508,548
Treasury bonds	3,936,420
Deferred income tax	4,004,313
	140,803,519
Current assets	
Inventory	1,868,171
Trade receivables and other debtors	9,212,898
Bank and cash balances	11,664,835
	22,745,904
Current liabilities	
Trade and other payables	5,852,046
Overdraft	6,690,191
Current income tax	193,544
	12,735,781
Net current assets	10,010,123
	150,813,642

PROFORMA PROFIT AND LOSS ACCOUNT	Year ending 30 June 2010
Net revenue	18,681,711
Variable cost	(2,671,396)
Fixed cost	(4,285,786)
Gross profit	11,724,529
Other Income	73,670
Depreciation	(5,415,330)
Profit before interest and tax	**6,382,868**
Net interest expense	(2,596,700)
Profit before tax	**3,786,168**
Income tax expense	(946,542)
Profit after tax	**2,839,626**

PROFORMA CASH FLOW STATEMENT

	For year ending 30 June 2010
Profit before tax	6,382,868
Depreciation	5,415,330
Interest Income	465,482
Cash flow from operations before working capital changes	12,263,680
Working capital changes	(1,913,480)
Cash from operations	10,350,200
Income tax paid	(1,908,015)
Net cash from operations	8,442,185
Cashflow from investing activities	
Purchase of property, plant and equipment	(17,724,224)
Net cash from investing activities	(17,724,224)
Cashflow from financing activities	
Loan draw down	17,398,802
Principal repayment	(4,124,067)
Loan Interest	(5,231,303)
Proceeds from issue of shares	4,396,724
Net cash from financing activities	2,440,156
Net increase in cash & cash equivalents	3,158,117
Movement in cash & cash equivalents	
At start of year	1,816,526
Increase	3,158,117
At end of year	4,974,644

Assumptions used in preparing the proforma financial information:

- Generation Statistics

Details	Statistic
Number of Hours Per Day	24
Generation Days Per annum	365
Kilowatt to Megawatt Conversion Factor	1,000
Energy Losses as % of Units Generated	0.5%
Internal Consumption as % of Units Generated	1.4%

- **Load Factors**

Geothermal	94.00%
Gas Turbines	23.70%
Diesel Plants	58.80%
Large Hydro	58.00%
Small Hydro	55.00%

Tariff structure

The following assumptions have been made regarding the tariff structure:

For existing projects, the tariffs are as applied currently for invoicing. These have been provided by management as indicated below.

Project	Capacity charge	Energy charge	Tariff (Shs/kWh)
Sondu Miriu	4.96	0.03	4.99
Exisisting Hydros	1.56	0.03	1.59
Olkaria I	1.70	0.06	1.75
Olkaria II	4.10	0.06	4.16
Kipevu Diesel	2.63	0.25	2.87
Kipevu GT	8.04	0.38	8.42
Nairobi Fiat	14.64	0.17	14.81
Small Hydros	-	7.31	7.31
Garissa	-	10.82	10.82
Lamu	-	15.07	15.07
Ngong - Wind	-	4.57	4.57

For new projects, the following assumptions have been applied in deriving the tariffs:

- The capital structure for all projects will be 40% equity and 60% debt ; and
- A minimum rate of return required by KenGen of 15%.

The table below presents the derived tariffs for the new projects:

Project	Capacity payment	Fuel cost	Energy payment	Tariff – (Shs/kWh)
	Hydro projects			
Sangoro	6.28	-	0.03	6.31
Karura	6.61	-	0.03	6.64
Mutonga	8.68	-	0.03	8.71
Magwagwa	8.16	-	0.03	8.19
Low Grand Falls	6.89	-	0.03	6.93
Thermal				
Thermal_120MW	4.8	7.11	1.54	13.45
300 MW Coal Plant	5.72	1.35	1.42	8.49
Wind				
Ngong_Wind	18.96	-	0.04	18.98
Marsabit_Wind	9.16	-	0.04	9.20
Geothermal projects				
Eburu_2.5MW	6.9	-	0.10	7.00
Olkaria_I_LifeExt	7.06	-	0.10	7.17
Olkaria_IV_New	7.25	-	0.10	7.36
Olkaria_I_New	8.09	-	0.10	8.20

Project	Capacity payment	Fuel cost	Energy payment	Tariff – (Shs/kWh)
Menengai_I	7.57	-	0.10	7.67
Eburu_15_MW	8.44	-	0.10	8.54
Menengai_II	7.45	-	0.10	7.55
Menengai_III	7.89	-	0.10	7.99
Menengai_IV	8.13	-	0.10	8.23
Longonot_I	8.48	-	0.10	8.58
Longonot_II	7.99	-	0.10	8.09

Financing of the projects

An assumption has been made that the projects will be financed partly by senior corporate debt and a corporate bond. The financing mix for the bond and the debt has been assumed to be in the ratio of 60:40. Further it is assumed that KenGen will maintain a capital structure of 150% debt to equity ratio while implementing the projects. Therefore, KenGen would go for a rights issue to raise equity capital for the leverage ratio to be maintained.

The table below summarises the generic features of the proposed financing instruments proposed for Horizon I projects:

Debt Instrument	% Total Debt	Tenor	Rate
Corporate Bond	40%	10 years	14%
Senior Debt	60%	8 Years	Libor Rate + 2%

To maintain the debt to equity ratio of 150%, KenGen would go for a rights issue programme as indicated below:

Rights date	Number of rights	Rights Price (Shs)	Expected proceeds (Shs'000)
2010	1 for every 10 held	20	4,396,724

Other items:

Costs – Operating expenses are based on the energy sent out. The operating expenses comprise of variable and fixed costs which constitute 15% and 85% respectively of the total operating expenses.

Working capital – the following working capital measures have been assumed.

- Inventory turnover – 10 times;
- Debtor days – 180 days;
- Creditor days – 60 days; and
- Retention sums blended with creditors (including contract creditors) – 300 days.

N. CONSENT

We consent to the inclusion of this report in the Information Memorandum to be issued on or about 24th August 2009 in the form and context in which it appears.

O. CONCLUSION

Based on our review, other than for the effect of the matters set out in sections C, E(ii) and E(iii) above (in respect of non-compliance with IAS 21 and the accounting for the retirement benefit obligations), nothing has come to our attention that causes us to believe that the audited financial statements of Kenya Electricity Generating Company Limited for the three years to 30 June 2008 and six months period to 31 December 2008 do not give a true and fair view in accordance with International Financial Reporting Standards (IFRS).

In respect of the prospective financial information contained in section M above, based on our examination and the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the prospective financial information. In our opinion, the prospective financial information is properly prepared on the basis of the assumptions. Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

Yours faithfully

Signature:

PricewaterhouseCoopers

Certified Public Accountants **24th August 2009**

Nairobi

Summary of Income Statements for the past five years extracted from the Audited Financial Statements adjusted for the new accounting policy in respect of exchange difference covered by the PPAs

	Six months ended 31 December 2008 Shs'000	Year ended 30 June 2008 Shs'000	Year ended 30 June 2007 Shs'000	Year ended 30 June 2006 Shs'000	Year ended 30 June 2005 Shs'000	Year ended 30 June 2004 Shs'000
Electricity sales – Non fuel	5,919,137	11,548,176	11,141,219	8,222,708	7,792,265	7,798,510
Fuel revenue – Pass through	4,695,025	4,543,387	3,410,548	6,077,352	3,219,312	1,164,564
	10,614,162	16,091,563	14,551,767	14,300,060	11,011,577	8,963,074
Operating expenses	(9,046,350)	(12,557,479)	(11,409,594)	(11,564,881)	(8,516,879)	(5,876,909)
Gross profit	1,567,812	3,534,084	3,142,173	2,735,179	2,494,698	3,086,165
Interest income	317,642	275,773	593,091	829,569	376,308	272,185
Other income	110,909	58,218	117,747	211,696	8,967	16,046
Operating profit	**1,996,363**	**3,868,075**	**3,853,011**	**3,776,444**	**2,879,973**	**3,374,396**
Finance costs:						
- Foreign exchange						
adjustments	21,141	8,764	13,804	38,003	-	-
- Other	(449,452)	(798,073)	(553,706)	(644,976)	(897,749)	68,050
Profit before tax	**1,568,052**	**3,078,766**	**3,313,109**	**3,169,471**	**1,982,224**	**3,442,446**
Income tax expense – current	-	-	(1,465,943)	-	-	-
– deferred	(491,052)	2,818,113	(456,128)	186,161	(674,678)	(1,110,149)
Net profit for the year	**1,077,000**	**5,896,879**	**1,391,038**	**3,355,632**	**1,307,546**	**2,332,297**
Earnings per share – basic						
and diluted (Shs)	0.49	2.68	0.63	1.53	4.76	8.49
Dividends per share (Shs)	-	0.90	0.80	0.55	-	-

PROFIT AND LOSS ACCOUNT

Appendix 1

	30-Jun-09 Shs'000	30-Jun-10 Shs'000	30-Jun-11 Shs'000	30-Jun-12 Shs'000	30-Jun-13 Shs'000
Net revenue	13,819,809	18,681,711	26,612,287	27,366,394	34,937,520
Variable cost	(593,749)	(2,671,396)	(6,879,651)	(6,884,775)	(6,962,229)
Fixed cost	(3,628,964)	(4,285,786)	(4,728,946)	(5,211,564)	(6,334,038)
Gross profit	**9,597,095**	**11,724,529**	**15,003,690**	**15,270,055**	**21,641,252**
Other income	17,293	73,670	220,326	277,363	-
EBITDA	**9,614,389**	**11,798,199**	**15,224,017**	**15,547,418**	**21,641,252**
Depreciation	(5,027,539)	(5,415,330)	(6,264,900)	(4,684,460)	(5,511,056)
EBIT	**4,586,849**	**6,382,868**	**8,959,117**	**10,862,958**	**16,130,196**
Net interest (charge)/income	(1,047,182)	(2,596,700)	(3,263,267)	(3,033,645)	(8,338,705)
EBT	**3,539,667**	**3,786,168**	**5,695,850**	**7,829,314**	**7,791,491**
Tax (charge)/credit	(884,917)	(946,542)	1,700,735	(2,408,597)	99,529
EAT	**2,654,750**	**2,839,626**	**7,396,585**	**5,420,717**	**7,891,019**

BALANCE SHEET

Appendix 1

	30-Jun-09 Shs'000	30-Jun-10 Shs'000	30-Jun-11 Shs'000	30-Jun-12 Shs'000	30-Jun-13 Shs'000
ASSETS					
Non-current assets					
Property, plant and equipment	90,557,250	105,354,238	114,191,960	115,664,212	180,650,590
Work in progress	27,827,521	27,508,548	33,207,294	53,804,194	2,645,235
Treasury bonds	3,936,420	3,936,420	3,936,420	3,936,420	3,936,420
Deferred income tax	162,332	4,004,313	7,713,561	8,883,347	29,358,360
Sub-total	**122,483,523**	**140,803,519**	**159,049,235**	**182,288,174**	**216,590,605**
Current assets					
Receivables and prepayments	6,815,248	9,212,898	13,123,868	13,495,756	17,229,462
Inventory	1,381,981	1,868,171	2,661,229	2,736,639	3,493,752
Bank and cash balances	3,666,212	11,664,835	16,367,661	21,678,558	32,014,996
Sub-total	**11,863,441**	**22,745,904**	**32,152,757**	**37,910,954**	**52,738,210**
Current liabilities					
Payables and accrued expenses	4,881,686	5,852,046	9,304,066	9,851,203	9,965,519
Overdraft	1,849,685	6,690,191	11,227,972	16,887,758	28,631,318
Current income tax	166,116	193,544	233,218	233,432	231,138
Sub-total	**6,897,487**	**12,735,781**	**20,765,256**	**26,972,393**	**38,827,976**
NET ASSETS	**127,449,477**	**150,813,643**	**170,436,736**	**193,226,735**	**230,500,839**
SHAREHOLDERS' FUNDS & LIABILITIES					
Capital & Reserves					
Share capital	5,495,904	6,045,495	6,045,495	6,045,495	6,650,044
Share - premium	5,039,818	8,886,952	8,886,952	8,886,952	13,602,438
Reserves	58,265,677	61,105,303	68,501,888	73,922,604	81,813,625
Proposed dividends	-	-	-	-	-
Sub-total	68,801,399	76,037,750	83,434,335	88,855,051	102,066,107
Non-current liabilities					
Borrowings	47,870,827	61,145,562	73,695,742	89,820,957	95,819,906
Deferred income tax	10,777,250	13,630,331	13,306,659	14,550,726	32,614,827
Sub-total	**58,648,077**	**74,775,893**	**87,002,401**	**104,371,684**	**128,434,733**
SHAREHOLDERS' FUNDS & LIABILITIES	**127,449,476**	**150,813,643**	**170,436,735**	**193,226,735**	**230,500,840**

CASH FLOW STATEMENT

Appendix1

	30-Jun-09 Shs'000	30-Jun-10 Shs'000	30-Jun-11 Shs'000	30-Jun-12 Shs'000	30-Jun-13 Shs'000
Cashflow from operations					
Profit before interest & tax	4,586,849	6,382,868	8,959,117	10,862,958	16,130,196
Depreciation	5,027,539	5,415,330	6,264,900	4,684,460	5,511,056
Interest income	433,006	465,482	500,393	537,922	578,266
Working capital changes	(2,548,939)	(1,913,480)	(1,252,006)	99,837	(4,376,502)
Cash from operations	7,498,456	10,350,200	14,472,403	16,185,177	17,843,017
Income tax paid	(1,495,047)	(1,908,015)	(2,292,510)	(2,334,103)	(2,313,676)
Net cash from operations	6,003,409	8,442,185	12,179,893	13,851,074	15,529,341
Cashflow from investing activities					
Purchase of property, plant and equipment	(28,545,646)	(17,724,224)	(18,093,894)	(22,057,287)	(18,996,892)
Net Cash from investing activities	**(28,545,646)**	**(17,724,224)**	**(18,093,894)**	**(22,057,287)**	**(18,996,892)**
Cashflow from financing activities					
Loan draw down	29,904,873	17,398,802	18,093,894	21,837,410	18,976,891
Principal repayment	(2,463,056)	(4,124,067)	(5,543,715)	(5,712,195)	(12,977,942)
Loan interest	(4,219,267)	(5,231,303)	(6,471,133)	(8,267,892)	(9,258,556)
Proceeds from					
issue of shares	-	4,396,724	-	-	5,320,036
Dividends paid	(2,594,067)	-	-	-	-
Net cash from financing activities	**20,628,483**	**12,440,156**	**6,079,047**	**7,857,323**	**2,060,429**
Movement in cash & cash equivalents	**(1,913,754)**	**3,158,117**	**165,046**	**(348,890)**	**(1,407,122)**
Cash at beginning of year	3,730,280	1,816,526	4,974,644	5,139,689	4,790,800
Cash at end of year	**1,816,526**	**4,974,644**	**5,139,689**	**4,790,800**	**3,383,678**

APPENDIX C. Letter of Payment Guarantee for requested allocation

Form of Irrevocable Guarantee for Public Infrastructure Bonds Offer in KenGen

[To be typed on the letter head of commercial bank guaranteeing the transaction]
Ref: [insert reference no.]
Date: [on or before ....2009]
Kenya Electricity Generating Company Limited
P.O. Box 47936
00100 Nairobi

Dear Sirs

Kenya Electricity Generating Company Limited – Public Infrastructure Bond Offer
Irrevocable Guarantee in Respect of Payment for Allocation of Bond Offer to [name of Investor]

WHEREAS [name of INVESTOR] ("the Investor") has by a Bond Application Form No [insert] dated [insert] applied for [insert] Bonds Offer in KenGen – Public Infrastructure Bond Offer as set out in the Prospectus dated [date] ("KenGen-IM") (capitalised terms used in this Guarantee shall have the meaning and interpretation given to such terms in the KenGen-IM).

AND WHEREAS it has been stipulated by you in the KenGen-IM that the Investor shall furnish you with an irrevocable on demand guarantee for the full value payable for the Bonds Offer applied for at the Offer Price.

AND WHEREAS we [name of Guarantor] have agreed to give this Guarantee:

NOW at the request of the Investor and in consideration of your allocating to the Investor the Offer Bonds or such lesser number as you shall in your absolute discretion determine, we hereby irrevocably undertake to pay you in Kenya Shillings, promptly upon your first written demand through Standard Chartered Bank Kenya Ltd and without delay or argument, such sum as may be demanded by you up to a maximum sum of Kenya Shillings [figures] [words] without your needing to prove or to show grounds or reasons for your demand or the sum specified therein by way of RTGS to 'KenGen PIBO [Form No]' on or before 12:00 p.m. on [ ] 2009 as set out in the KenGen-IM.

This Guarantee will remain in force up to and including 3.00 p.m. on 2nd November 2009 and any demand in respect thereof should reach our office not later than the above date and time. Upon expiry it automatically becomes NULL and VOID whether the original is returned to us for cancellation or not and any claim or statement received after expiry shall be ineffective.

This Guarantee shall be governed and construed in accordance with the Laws of the Republic of Kenya.
IN WITNESS WHERE OF THIS LETTER OF IRREVOCABLE GUARANTEE HAS BEEN EXECUTED BY US ON THIS [date on or before ....2009].

[Signed as per the commercial bank mandate]
Please note that the Bank Account No is [ ], held at Standard Chartered Bank Kenya Ltd, Kenyatta Avenue Branch for RTGS.

APPENDIX D. List of Authorised Placing Agents (Stockbrokers & Investment Banks & Commercial Banks)

Licensed Investment Banks	
Standard Investment Bank Ltd 16th Floor, ICEA Building, Kenyatta Avenue P.O. Box 13714, 00800, Nairobi. Tel: 2220225 info@sib.co.ke	**Faida Investment Bank** 1st Floor, Windsor House, University Way P.O. Box 45236, 00100, Nairobi. Tel: 243811-13 info@fib.co.ke
Afrika Investment Bank Ltd 13th Floor, Finance House, Loita Street P.O. Box 11019, 00100, Nairobi. Tel: 2212989 info@afrikainvestmentbank.com	**Apex Africa Investment Bank Ltd** 4th Floor, Rehani House, Koinange Street P.O. Box 43676, 00100, Nairobi. Tel: 242170 invest@apexafrica.com
CFC Stanbic Financial Services Ltd 1st Floor, Stanbic House, Kenyatta Avenue P.O. Box 47198, 00100 Nairobi. Tel: 3638900 csfs@stanbic.com	**Drummond Investment Bank Ltd** 2nd Floor, Hughes Building, Kenyatta Avenue P.O. Box 45465, 00100, Nairobi. Tel: 318689 Info@francisdrummond.com
Dyer & Blair Investment Bank Ltd 10th Floor, Loita House, Loita Street P.O. Box 45396, 00100, Nairobi. Tel: 3240000 shares@dyerandblair.com	**Kestrel Capital Investment EA Bank Ltd** 5th Floor, ICEA Building, Kenyatta Avenue P.O. Box 40005, 00100, Nairobi. Tel: 251758 info@kestrelcapital.com
Renaissance Capital (Kenya) Ltd 6th Floor, Purshottam Place, Chiromo Road P.O. Box 40560-00100 Nairobi. Tel: 3682000 info@rencap.com	**Sterling Investment Bank Ltd** 11th Floor, Finance House, Loita Street P.O. Box 45080, 00100, Nairobi. Tel: 213914 info@sterlingstocks.com
Suntra Investment Bank Ltd 7th & 10th Floors, Nation Centre, Kimathi Street, P.O. Box 74016, 00200, Nairobi. Tel: 2870000 info@suntra.co.ke	

Licensed Stockbrokers	
African Alliance Kenya Securities Ltd Kenya Re Towers, Ground Floor Upper Hill, off Ragati Road P.O. Box 27639-00506 Nairobi Tel: 2718720/2710978 securities@africanalliance.co.ke	**Kingdom Securities Ltd** 5th Floor Co-operative House Haile Selassie Avenue P.O. Box 48231-00100, Nairobi Tel: 3276676/000 kingdom@co-opbank.co.ke
ABC Capital Ltd 5th Floor, IPS Building, Kimathi Street P.O. Box 34137-00100, Nairobi. Tel: 2246036 crossfield@wananchi.com	**Ngenye Kariuki & Co. Ltd** 8th & 15th Floors, Corner House, Kimathi Street P.O. Box 12185-00400, Nairobi Tel: 2224333/0052/014 ngenyekari@yahoo.com
Genghis Capital Ltd 5th Floor, Prudential Assurance Building Wabera Street P. O. Box 1670-00100 Nairobi Tel: 2373968/2774195-8/2337535/6 info@genghiscapital.co.ke	**Reliable Securities Ltd** 6th Floor, IPS Building, Kimathi Street P. O. Box 50338-00200, Nairobi. Tel: 2241350/4/79 info@reliablesecurities.co.ke
NIC Capital Securities Ltd NIC House, Masaba Road, P.O. Box 44599-00100, Nairobi Tel: 2888000 capital@nic-bank.com	

Commercial Banks	
Barclays Bank of Kenya Ltd Barclays Plaza, Loita Street P. O. Box 30120-00100 Nairobi Tel: 3267000/313364/2241270 bbk.contact-centre@barclays.com	**Commercial Bank of Africa Ltd** Mara & Ragati Road, Upper Hill P. O. Box 30437-00100, Nairobi Tel: 2884000/ 2734555 iqueries@cba.co.ke
Equity Bank Ltd Equity Centre, Hospital Road P. O. Box 75104-00200 Nairobi Tel: 2262000/2263000 Email: info@equitybank.co.ke	**Family Bank Ltd** Fourway Towers, Muindi Mbingu Street P. O. Box 74145-00200 Tel: 318173/2242066 customerservice@familybank.co.ke
I&M Bank Ltd I&M Bank House, 2nd Ngong Avenue P. O. Box 30238-00100 Nairobi Tel: 2711994-8/310105-7 invest@imbank.co.ke	**Kenya Commercial Bank Ltd** Kencom House, Moi Avenue P. O. Box 48400-00100 Nairobi Tel: 3270000/2852000/2229129 kcbhq@kcb.co.ke
Standard Chartered Bank Kenya International House, 13th Floor Mama Ngina Street P. O. Box 30003-00100, Nairobi Tel: 3291050	

APPENDIX E. Form of Transfer

FORM OF TRANSFER CERTIFICATE

For value received the undersigned hereby sell(s), assign(s) and transfer(s)

to: ....

....

('Please print or type write name and address of transferee' not more than four names may appear as joint Bondholders.)

Kshs * *   in principal amount of this/these Bond(s) currently outstanding and all rights thereunder, and irrevocably request(s) the Registrar to transfer this/these Bond(s) on the books kept for registration thereof.

Dated: .... Signed: ....

Certifying Signature(s):..

APPENDIX F. Master Definitions

In addition to certain terms defined at appropriate parts of this document, the following definitions apply throughout this document unless the context requires otherwise:

Subject	Definition
Additional Business Centre	Any other place in Kenya where Commercial Banks and the Stock Exchange are open for business.
Agency Agreement	the agreement dated on or about the date of this Information Memorandum appointing the Bond Trustee, Fiscal Agent, and the Registrar and any other agreement for the time being in force appointing Successor Agents or other Agents in relation to the Bonds, or in connection with their duties together with any agreement for the time being in force amending or modifying any such agreements.
Agents	the Fiscal Agent, Bond Trustee, and the Registrar and "Agent" means any one of the Agents and includes any successor agents appointed from time to time in accordance with the Agency Agreement.
AFD	Agence Francaise de Development.
Applicable Procedures	the detailed regulations concerning transfers of Bonds set forth in the Agency Agreement.
Auditors	the auditors for the time being of the Issuer or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of these presents, such other firm of accountants as may be appointed by the Issuer.
Arranger	Standard Chartered Bank Limited, Kenya.
Associated Person	in relation to any person, a person who is (A) acting on concert with that person or (B) a connected person of that person.
Board or Directors	the Board of Directors of KenGen
Bonds	the KenGen bonds in registered form, comprising in the aggregate the Kshs 15,000,000,000 (Kshs 25,000,000,000 including the Greenshoe Option) fixed rate bonds with a final maturity of 31 October 2019 issued pursuant and subject to the Trust Deed and the Terms and Conditions and for the time being outstanding or, as the case may be, a specific number thereof.
Bond Certificate	a certificate substantially in the form set out in the Section 2 of this Information Memorandum (Form of Certificates) representing a Bondholder's holding of Bonds.

Subject	Definition
Bondholders	the several persons who are for the time being holders of the Bonds (being the several persons whose names are entered in the register of holders of the Bonds as the holders thereof) and the words "holder" and "holders" and related expressions shall (where appropriate) be construed accordingly.
Bondholder's registered account	the Kshs account maintained by or on behalf of the Bondholder with a bank that processes payments in Kshs, details of which appear on the register of Bondholders at the close of business.
Business Day	a day (other than a Saturday or Sunday or public holiday) which is a day on which commercial banks and foreign exchange markets settle payments in or from Nairobi, or such other place in Kenya where commercial banks and foreign exchange markets settle payments.
Certificate	a Bond Certificate.
CDS	the Central Depository System a versatile computer system that facilitates holding of securities in electronic accounts thereby facilitating faster and easier processing of transactions at the NSE.
CDSC	the Central Depository and Settlement Corporation the Kenyan company that owns and manages the Central Depository System
CDSC Rules	the Central Depositories (Regulation of Central Depositories) Rules 2003, and the Central Depositories (Operational) Rules, or any amendment, modification or replacement thereof.
CMA	the Capital Markets Authority in Kenya, a statutory body incorporated under the Capital Markets Authority Act and includes any body replacing it or any of its functions.
Current Assets	the aggregate at any time of any assets of the Issuer which would, in accordance with international generally accepted accounting principles and applied on a consistent basis, be classified as current assets.
Current Liabilities	the aggregate at any time of the obligations of the Issuer to pay money on demand or within 1 year from the relevant time and any other obligations of the Issuer which would, in international generally accepted accounting principles and applied on a consistent basis, be classified as current liabilities.
Current Ratio	the ratio of Current Assets to Current liabilities.
Days	365 days in a year or 366 days for a leap year.
EFT	Electronic Funds Transfer.
Early Redemption Amount	an amount calculated in the manner described in Condition 7.2 of the Terms and Conditions of Bonds.
EIB	European Investment Bank.
ERC	Energy Regulatory Commission and includes any body replacing it or any of its functions.

Subject	Definition
Euro or EUR	the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.
Event of Default	any of the events of default as described in Condition 11 of the Terms and Conditions of Bonds.
Extraordinary Resolution	a resolution passed at a meeting of the Bondholders duly convened and held in accordance with the provisions of the Trust Deed by a majority consisting of not less than 75% of the persons voting there at upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75% of the votes given on such poll.
Financial Advisor	KPMG Kenya.
Financial Year	means the accounting year of the Issuer commencing each year on July 1 and ending on the following June 30, or such other period as any of the Issuer may from time to time designate as its accounting year.
Fiscal Agent	Standard Chartered Bank Kenya Limited who have been initially appointed as calculation agent and paying agent in relation to the Bonds by the Issuer pursuant to the Agency Agreement dated 28th August 2009 and/or, if applicable, any Successor Fiscal Agent in relation to the Bonds.
Foreign Investor	any person who is not a Local Investor as defined in the The Capital Markets (Foreign Investors) Regulations, 2002 as amended.
Guarantee	any obligation of a person to pay the Indebtedness of another person, including without limitation: (A) an obligation to pay or purchase such Indebtedness; (B) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; or (c) any other agreement to be responsible for such Indebtedness.
IAS	International Accounting Standards.
IDA	International Development Agency.
IFRS	International Financial Reporting Standards.
Indebtedness	with respect to any person, any amount payable (whether as a direct obligation or indirectly through a Guarantee) by such person pursuant to an agreement or instrument involving or evidencing money borrowed or received, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase or pursuant to a lease with substantially the same economic effect as any such agreement or instrument and which, under international generally accepted accounting principles, would constitute a capitalised lease obligation.

Subject	Definition
Instalment Amount	the amount, due to be paid by the Issuer in accordance with Condition 7 (Redemption and Purchase).
Institutional and foreign Investors	Commercial banks duly licensed in the East African Community Partner States, collective investment schemes duly licensed by capital market regulators in the East African Community Partner States , Pensions and retirement benefit schemes licensed by the retirement benefit authorities in the East African Community Partner States, insurance companies duly licensed in the East African Community Partner States, investment banks or dealers licensed by the capital markets regulators in the East African Community Partner States, Qualified Institutional Investors and Foreign Investors
Information Memorandum	this information memorandum dated 28th August 2009
Interest Commencement Date	2 November 2009, date interest on bonds starts to accrue.
Interest Payment Date	any date interest becomes payable being 30 April or 31 October each year with the first date commencing on 30 April 2009 and ending on 31 October 2019.
Interest Period	each period from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date.
IPO	Initial Public Offer.
Issue or Offer	the issue of the Bonds as described in the Information Memorandum.
Issue Price	the price of issue of the Bonds.
Issuer or Kengen or the Company	Kenya Electricity Generating Company Limited.
JBIC/ JICA	Japan Bank for International Cooperation/Japan International Cooperation Agency.
KBC	KBC Bank NV
Lead Placing Agent	Standard Investment Bank Limited
Management Accounts	Management accounts of the Issuer for each 3 month period during each of its Financial Years, such period in form and substance satisfactory to the Bonds Trustee.

Subject	Definition
Net Worth	the sum of paid-in capital, reserves and retained earnings, as each is determined in accordance with generally accepted international accounting principles.
NSE	The Nairobi Stock Exchange.
Outstanding Bonds	means in relation to the Bonds all the Bonds issued other than: (a) those Bonds which have been redeemed pursuant to these presents; (b) those Bonds in respect of which the date for redemption in accordance with the Terms and Conditions has occurred and the redemption moneys (including an early redemption fee premium (if any) and all interest payable thereon) have been duly paid to the Fiscal Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the Bondholders in accordance with Condition 15 (Notices)) and remain available for payment against presentation of the relevant Bonds; (c) those Bonds which have been purchased and cancelled in accordance with Condition 7 (Redemption and Purchase by the Issuer); (d) those Bonds which have become void under Condition 11 (Events of Default); (e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued ; (f) (for the purpose only of ascertaining the principal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued provided that for each of the following purposes, namely: (i) the right to attend and vote at any meeting of the Bondholders or any of them; (ii) the determination of how many and which Bonds are for the time being outstanding for the purposes of the Agency Agreement, and Conditions 11 (Events of Default) and 16 (Meetings of Bondholders); (iii) any discretion, power or authority (whether contained in these presents or vested by operation of law) which the Fiscal Agent is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders or any of them; and (iv) the determination by the Fiscal Agent whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Bondholders or any of them, those Bonds (if any) which are for the time being held by, for the benefit of, or on behalf of, the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding

Subject	Definition
OEC	The Overseas Economic Cooperation Fund
Placement Agreement	A placement agreement dated on or about the date of this Information Memorandum between the Issuer and an Authorised Placing Agent.
Potential Event of Default	any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default
Principal Repayment Date	any one of the First Principal Repayment Date and the subsequent Principal Repayment Dates up to and including the Final Principal Repayment Date, as the case may be
Qualified Institutional Investor	Collective Investment Schemes licensed by the Capital Market Authority under the Capital Markets Act, Investment Banks licensed by the Capital Markets Authority under the Capital Markets Act, schemes licensed by the Retirement Benefits Authority under the Retirement Benefits Act (No 3 of 1997) and insurance companies licensed by the Insurance Regulatory Authority under the Insurance Act (Cap 487) of the Laws of Kenya; National Social Security Fund and National Hospital Insurance Fund of Kenya, co-operative and savings societies in Kenya, collective investment schemes and pension funds registered under the Capital Markets Authorities and Retirement Benefit Authorities of East African Community Partner States; Institute Nationale De Securite' Social (INSS) of Burundi, National Social Security Fund (NSSF) of Rwanda, National Social Security Fund (NSSF) of Uganda, National Social Security Fund (NSSF) of Tanzania and Parastatals Pension Fund (PPF) of Tanzania.
Registrar and Receiving Agent	Image Registrars Limited
Record Date	in the case of payments of interest or principal, 5.00 pm Nairobi time 15 calendar days before the relevant date for payment or such other date as may be agreed between the Bond Trustee (on behalf of the Bondholders), the Issuer and the relevant Agents
Register	a register kept at the Specified Office of the Registrar on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemption of Bonds.
Registrar	Image Registrars Limited, who have been initially appointed as registrar, receiving agent, transfer agent and replacement agent in relation to the Bonds by the Issuer pursuant to the Agency Agreement or, if applicable, any Successor Registrar in relation to the Bonds.

Subject	Definition
Specified Office	in relation to any Agent, either the office identified with its name in the Terms and Conditions or any other office notified to any relevant parties pursuant to the Agency Agreement
Sponsoring Broker	Standard Investment Bank Limited
Successor	in relation to any party appointed under the Agency Agreement, any successor to any one or more of them which shall become a party pursuant to the provisions of these presents, the Agency Agreement (as the case may be) and/or such other or further agent (as the case may be) in relation to the Bonds as may from time to time be appointed as such, and/or, if applicable, such other or further Specified Office as may from time to time be nominated, in each case by the Issuer and (except in the case of the initial appointments and Specified Office made under and specified in the Terms and Conditions or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been duly given to the Bondholders
Tangible Net Worth	at any time the aggregate of the Net Worth but adjusted by: (A) adding any credit balance on the profit and loss account of the Issuer (to the extent not included in paragraph (b) above) or, as the case may be, deducting any debit balance on the profit and loss account of the Issuer; (B) deducting any dividend or other distribution declared, recommended or made by the Issuer (other than to the Issuer) out of profits earned up to and including the date of the latest balance sheet of the Issuer to the extent that such distribution is not provided for in the latest balance sheet of the Issuer; (C)reflecting any variation since the date of the latest balance sheet of the Issuer in the amount paid up or credited as paid up on the issued share capital of the Issuer and in the consolidated reserves of the Issuer (other than in the profit and loss account of the Issuer); and (D) excluding the amount paid up or credited as paid up on any redeemable share capital of the Issuer which is redeemable or may on the occurrence of certain events be redeemable before the Final Repayment Date, and excluding any element of consolidated reserves attributable to that redeemable share capital, but so that no amount shall be included or excluded more than once in the same calculation, and, for the avoidance of doubt, taking no account of any amount set aside for Taxation or attributable to minority interests.

Subject	Definition
Terms and Conditions	the Terms and Conditions to be endorsed on and regulating the Bonds in definitive form in the form or substantially in the form set out in Schedule 1 of the Trust Deed as the same may from time to time be modified in accordance with these presents and any reference in these presents to a particular specified Condition or paragraph of a Condition shall be construed accordingly.
Total Debt	at any time the aggregate (without double counting) of: (A) that part of the Indebtedness of the Issuer which relates to obligations (whether present or future, actual or contingent and whether incurred as principal or surety) for the payment or repayment of money in respect of principal incurred in respect of (aa) moneys borrowed or raised, (bb) any bond, note, loan stock, debenture or similar instrument, or (cc) any acceptance credit, bill discounting, note purchase, factoring or documentary credit facility (including, for the avoidance of doubt, any indebtedness under the Trust Deed); and (B) the capital element of all rentals or, as the case may be, other payments payable under any finance lease entered into by the Issuer.
Transaction Documents	the Trust Deed, the Agency Agreement and the Placement Agreement.
Trust Deed	the trust deed dated on or about the date of this Information Memorandum to be entered into between the Issuer and the Bond Trustee as modified and/or supplemented and/or restated from time to time.
Trustee	Livingstone Registrars Limited or any other person for the time being acting as trustee pursuant to the Trust Deed between the Issuer and the Bonds Trustee.
U.S. Dollar or USD or US$	the lawful currency of the United States of America.
Kenyan Shillings or Kshs	the lawful currency of the Republic of Kenya.

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