

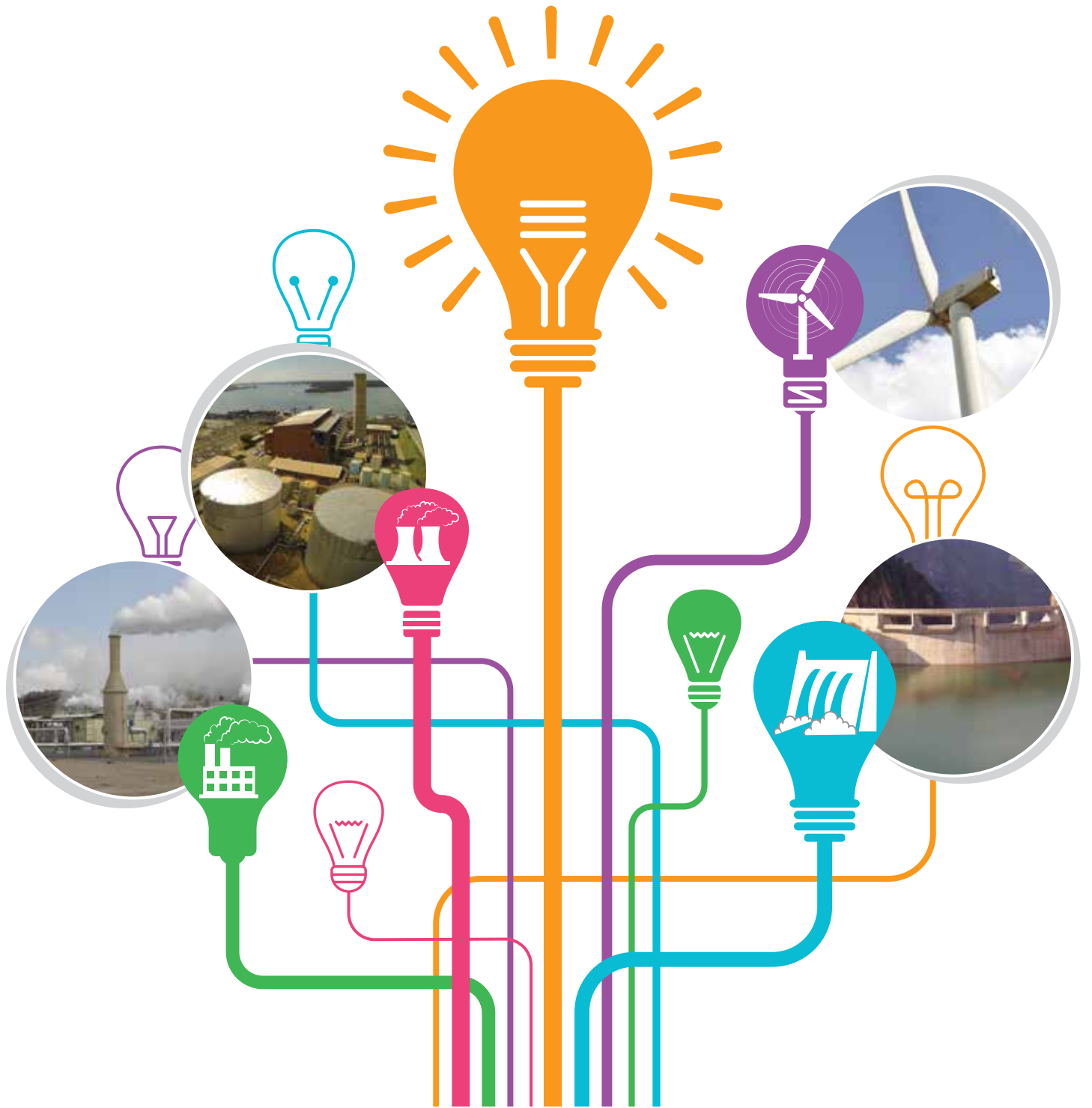
**INTEGRATED ANNUAL REPORT &  
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2015



**KenGen**

*Energy for the nation*



**Catalysing the Nation's Future  
through Competitive Energy**



## FUELING KENYA

As Kenya's economy continues to grow, few things will be more important to its development than a sufficient supply of power. KenGen is the country's largest generator of electricity and supplies the power that drives everything from our industries to the light in our homes. As Kenya grows, KenGen plans to continue leading the way in generating enough power to meet the country's electricity demands. KenGen, energy for the nation.



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# Our History

“KenGen aged 61”

2015

- Completed the single largest geothermal power plant in the world; (280MW) project
- Largest contributor to the +5000MW in 40 months GoK initiative: with 375MW already installed out of the allocated 844MW to KenGen
- ISO QMS 9001:2008 and EMS 14001:2004 recertified

2005 - 2014

- Ground breaking for the largest Single Geothermal Power Project in the World: Olkaria 280MW
- Largest Wind Farm in Kenya completed: Ngong 25.5MW
- Ambitious Resettlement Action Plan (RAP) for 150 households in Olkaria completed
- Innovative Wellhead Technology Project of 75MW rolled out
- Quickest Thermal Power Plant in East Africa commissioned in record 14 months: Kipevu III 120MW
- Largest Public Infrastructure Bond in Kenya; successfully raised over Shs 26 billion
- Deepened Kenyan Capital Markets through successful public listing with 336% subscription rate on the Nairobi Securities Exchange
- 60MW Sondu Miriu Hydro Power; a run-off the river plant with a 17km penstock tunnel commissioned

1995 - 2004

- Kenya Power Company rebranded as KenGen following a restructuring in the Power Sub-sector
- Becomes the first Kenyan parastatal to be ISO: 9001 Standard certified

1985 - 1994

- First Ngong' Wind Farm 0.35MW commissioned
- Turkwel 106MW Hydro Power Plant commissioned

1975 - 1984

- First 15MW Geothermal Unit in Olkaria I installed and a total of 45MW completed in 1985
- 144MW Gitaru Units 2 & 3 installed; 80MW Unit 1 installed in 1999, making it the largest Hydro Plant in Kenya at 225MW

1965 - 1974

- Completed the First post-independence Power Plant along the Tana River: Kindaruma 40MW Hydro Plant which was upgraded to 72MW
- Nairobi South I 3.5MW Thermal Plant commissioned

1955 - 1964

- Completed the first three geothermal exploration wells in Africa within Olkaria Geothermal Field
- Gogo 2MW Hydro Power Plant commissioned

1945 - 1954

- Kenya Power Company (KPC) incorporated as a private company and converted to a Public Company in 1955

1925 - 1944

- Ndula Power Plant commissioned (2MW)
- Mesco Hydro power Plant (0.38MW), rehabilitation & upgrade to 0.433MW in 2013





**KenGen**  
a strong identity  
and brand



**PURPLE**  
Solidity & Strength

**RED**  
Energy

**ORANGE**  
Vision & Drive

**KenGen**

*Energy for the nation*

**GREY**  
Concrete & Steel

## CORE BUSINESS

The Company's responsibility is to deliver affordable, reliable, competitively priced and clean energy today, while making investments needed to ensure a sustainable future.

Our core business is to develop, manage and operate power generation plants to supply bulk electric energy to the Kenyan market and the Eastern Africa region. KenGen is the leading power generation company, producing 70 percent of electricity consumed in the country. As at 30 June 2015, the Company had an installed capacity of 1,617MW. This power is sold to one customer Kenya Power, which is the country's sole power off-taker.



## THE VISION

who we want to be

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

- ⚡ To ensure **QUALITY & RELIABLE** electric power, we are transitioning from a mix of time-based planned maintenance to condition-based maintenance (CBM) practices to ensure sustained availability of plants.
- ⚡ KenGen continues to pursue a **CLEAN AND SAFE** generation mix through a combination of green, sources such as geothermal, wind, hydro and solar. In the interest of sustainability, KenGen is laying more emphasis on renewable technologies as evidenced by the commissioning of the mega 280MW geothermal and 20.4MW wind projects during the year.
- ⚡ **COMPETITIVELY PRICED ELECTRICITY** - Our generation projects take a lead role in the National Least Cost Power Development Plan. KenGen is committed to deliver projects on time and within budget, optimizing operating costs, competitively negotiated PPAs and negotiating low cost loans.

## OUR MISSION

what we want to achieve



To efficiently generate competitively priced electric energy using state-of-the-art technology, skilled and motivated human resource to ensure financial success. We shall achieve market leadership by undertaking least cost and environmentally friendly capacity expansion. Consistent with our corporate culture, core values will be adhered to in all our operations.

- ⚡ Using state-of-the art technology, supervisory control and data acquisition (SCADA) systems for plant visibility, operational convenience and enhanced connectivity
- ⚡ With a balanced workforce of over 2,400 of diverse technical and professional competencies; KenGen is positioned to realize its mandate and respond appropriately to emerging challenges
- ⚡ The combination of growing asset base, increased profitability and enhanced revenue has ensured that KenGen continually maximizes on shareholder value
- ⚡ KenGen continues to align its corporate culture with its organizational goals, strategies, structures and approach to the stakeholders in tandem with the evolving workplace dynamics



# OUR CORE VALUES

the base for our work

Core values are our guiding principles and form the foundation of our culture. They guide our business processes and underpin each action we take. These values are:



## Significant Strides

1

7th Largest Geothermal Producer in the World and largest in Africa

2

The first world Mega Geothermal Project 280MW Olkaria I & IV completed in January 2015

3

Developed the first largest Geothermal Power Generating Single Unit (70MW) in Africa

4

Pioneered Geothermal Wellhead Condensing Technology in the world

6

Drilled the largest Geothermal (30MW) Well in Africa

5

Operationalized 56.1MW of geothermal wellhead modular plants, the largest in the world

9

Implemented a remarkable community Resettlement Action Plan (RAP) for over 150 households in Olkaria

7

First energy company in Kenya to receive Carbon Asset Funds under the Clean Development Mechanism (CDM)

8

ISO QMS 9001:2008 and EMS 14001:2004 recertified

10

Largest Wind Power Producer in East Africa with a capacity of 25.5MW

11

Recognized as the Africa Power Utility Company of the Year 2015



# Accolades

.....in the Year

- Clean Energy Project of the Year by EAPIC
- Africa Power Utility of the Year 2015 by EAPIC
- Best Practice in Board Diversity Award by NSE
- Construction, Energy and Chemicals Category in Rising Star Awards by CFC Stanbic
- Employee Motivation and Retention by the Institute of Human Resource Management
- Innovation and Technology by the Institute of Human Resource Management
- Financial Reporting (FiRe) 2015

1st Runners Up - Corporate Governance Category  
 1st Runners Up - IFRS Public Sector Entities Category and;  
 2nd Runners Up - State Corporations & SAGAs Category  
 Awards by CMA, NSE & ICPAK



## About KenGen

Kenya Electricity Generating Company Limited (KenGen) is the leading power producer in the country, having been incorporated in 1954 under the Companies Act of the Laws of Kenya as Kenya Power Company (KPC).

The Company was formed with the initial mandate of constructing electricity transmission lines between Nairobi and Tororo in Uganda for importation of power from the Owen Falls hydroelectric plant and later management of all local generation resources. East Africa Power & Lighting Company (EAP&L) was then contracted by the shareholders of KPC to manage the company on their behalf. EAP&L later changed to Kenya Power & Lighting Company (KPLC) in 1983.

Following the energy sector reforms in 1996, the management of KPC was formally separated from Kenya Power and renamed KenGen in January 1997. In 2006, KenGen was listed on the Nairobi Securities Exchange after the Government of Kenya sold 30% of its stake in the Company through a very successful Initial Public Offer (IPO).

KenGen continued its responsibility of electricity generation while Kenya Power & Lighting Company (KPLC) was left with distribution and transmission responsibility.

During the same year, the Electricity Regulatory Board (ERB) an electricity regulator, was established under the 1997 Electric Power Act. It later changed to Energy Regulatory Commission (ERC) to include the fuel sub-sector.

As a result of sectoral reforms of 1996, the management of KPC was formally separated from KPLC. KenGen at its launch took charge of all publicly owned power generating plants.

The Company is propelled by the Good-to-Great (G2G) Transformation Strategy of moving from a "Good Company" to a "Great Company" through the creation of sustainable value from "One Generation" to the "Next Generation". As a result, the Company is able to efficiently generate competitively priced electric energy using skilled and motivated human resource and state-of-the-art technology in line with the core values of professionalism, integrity, safety culture and team spirit.

KenGen owns thirty-two (32) power generating plants with a combined installed capacity of 1,617MW from generation modes comprising hydro, thermal, geothermal and wind technologies as follows:

### Hydroelectric Power Plants

Gitaru	225MW
Gogo	2MW
Kamburu	94.2MW
Kiambere	168MW
Kindaruma	72MW
Masinga	40MW
Mesco	0.43MW
Sagana	1.5 MW
Sondu	60MW
Sosiani	0.4MW
Tana	20MW
Turkwel	106MW
Wanjii	7.4MW
Sang'oro	21MW
Ndula	2MW

### INSTALLED CAPACITY (1,617MW)

HYDRO	819.9MW
GEOHERMAL	508.8MW
THERMAL	262.5MW
WIND	25.5MW

### Geothermal Power Plants

Olkaria I	45MW
Olkaria IAU	150.5MW
Olkaria II	105MW
Eburru	2.5MW
Wellheads (10 Units)	56.1MW
Olkaria IV	149.8MW

### Wind

Ngong Wind Power	5.1MW
Ngong I Phase II Wind Power	6.8MW
Ngong II Phase II Wind Power	13.6MW

### Thermal Power Plants

Kipevu III Diesel	120MW
Kipevu I Diesel	73.5MW
Embakasi Gas Turbine	60MW
Lamu	2.8MW
Garissa	6.2MW
(Temporary Power Aggreko)	3.4MW

## About KenGen

KenGen operates in a liberalised power generation environment with a market share of about 70% of the national installed capacity and sells all its generated electric power in bulk to Kenya Power for onward distribution to consumers.

KenGen continues to aggressively scale up its generation portfolio as evidenced by the Company's investment plan

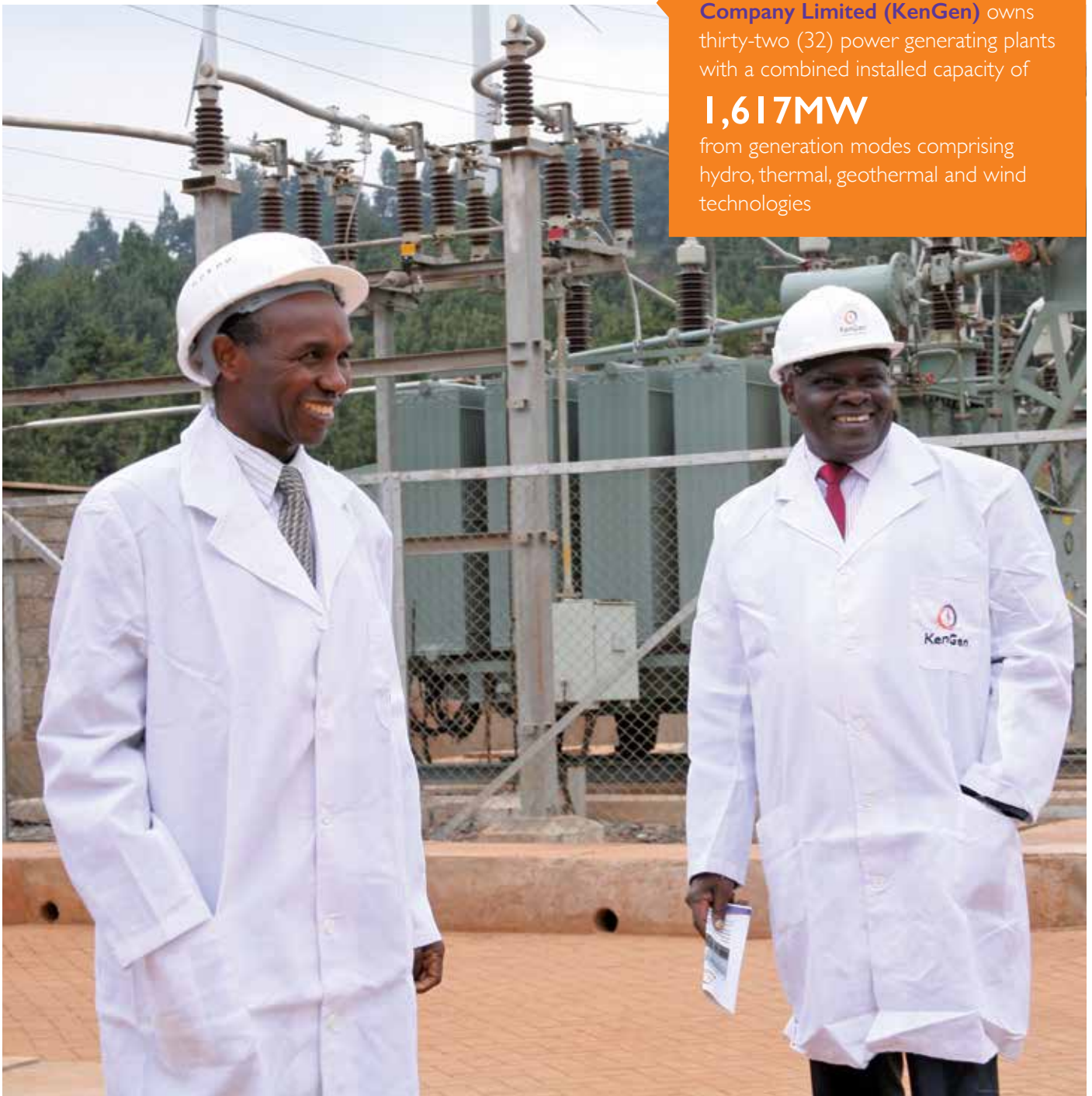
and achievements during the year. Human Capital is a key pillar in the successful execution of KenGen's strategy. In line with this, as at 30 June 2015 the Company grew its workforce to 2,407 with a wealth of experience in relevant fields. This workforce enables the Company to maintain leadership in the electric energy sub-sector in Eastern Africa.

### Kenya Electricity Generating Company Limited (KenGen)

owns thirty-two (32) power generating plants with a combined installed capacity of

**1,617MW**

from generation modes comprising hydro, thermal, geothermal and wind technologies



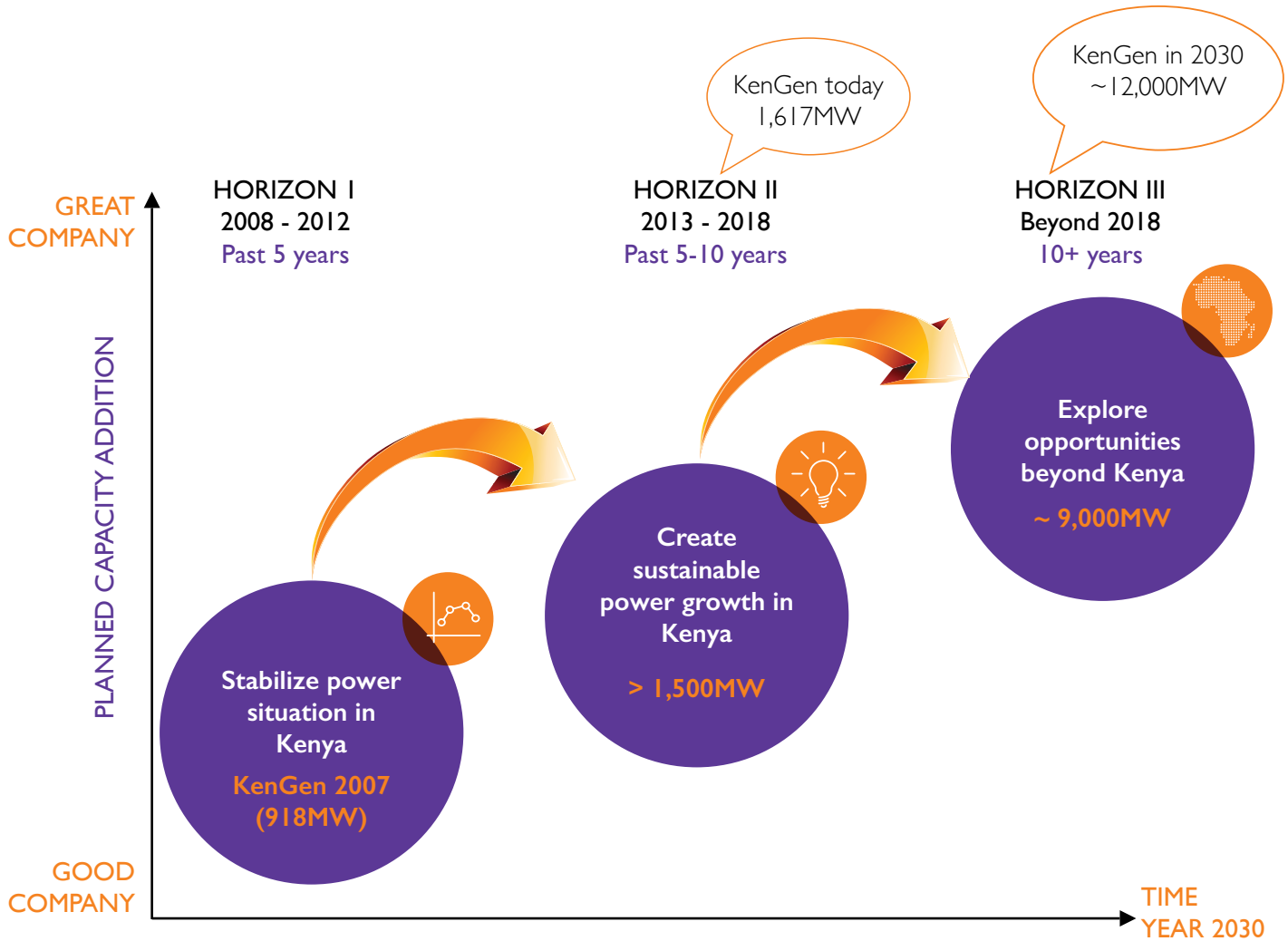
## Location of Our Power Stations

The map below shows the locations of the Company's existing power installations.



# Our Strategic Prospects

To fulfil its vision of being the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region, KenGen drew up a 10-year strategic path divided into three clear horizons:



In light of the strategic goals to beyond year 2018, KenGen adopted a Transformation Strategy in 2007 themed Good-to-Great (G2G), symbolizing two critical themes of moving from a “Good” company to a “Great” company through the creation of sustainable value from one “Generation” to the next “Generation.”

The strategic challenge the Company faced was to move from being a good company to being a great company. For this reason, the transformation strategy was termed journeying from “Good to Great” (G2G) to fulfil the

mission of efficiently generating reliable, quality, safe and competitively priced electrical energy.

This transformation strategy means moving away from “business as usual.” It means challenging employees to create a company they can be proud of and one that would last generations to come, a truly great place to work and one that creates value to stakeholders today and in the future.

# Report of the Directors

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## About this Report

This report aligns with best practice in integrated reporting. It includes principles of international financial reporting standards and takes into account other guidelines published in this regard.

## Statement of Directors

The directors are pleased to present their Report together with the audited financial statements of the Kenya Electricity Generating Company Limited (the “company”) for the year ended 30 June 2015, which shows the state of affairs of the company.

The Board, assisted by the Audit and Risk Committee is ultimately responsible for the integrity and completeness of the integrated report and any supplementary information. The Board has applied its collective mind to the preparation and presentation of the Integrated Report and has concluded that it is presented in accordance with the International Financial Reporting Standards - IFRS.

The content is further guided by legal and regulatory requirements, such as Kenya Companies Act and Capital Markets Authority Corporate Governance Guidelines as well as global best practices in integrated reporting. We are assessing the requirements of the International Integrated Reporting Framework (IIRF) published by the Integrated Reporting Council in December 2013.

## Integrated Reporting

We are committed to integrated reporting and continue on the journey to improving both our integrated reporting, guided by best practice, and integrated thinking.

This integrated report focuses on value creation over the short, medium and long term. It indicates how the company's value creation process is impacted by its internal and external environment, together with the connectivity between strategy, governance, performance and future outlook, as well as the impact of the organization's activities in the environment and trade-offs that influence value creation over time.

This report seeks to provide a transparent balanced appraisal of our value creation story, considering both qualitative and quantitative matters that are material to our operations and strategic objectives, and which may influence stakeholders decisions.

Matters important to stakeholders are determined through extensive consultation with them and consideration of their concerns, taking account of our strategic objectives, assessment of risks and our value chain. Material matters are those that are of high concern to stakeholders and could have a significant impact on our ability to create value. This is our primary report to shareholders. Although it is targeted at providers of financial capital, it provides information of interest to all stakeholders.

## Reporting Boundary

This integrated report reviews our economic, technical, social and environmental performance for the year from 1 July 2014 to 30 June 2015, with two years' comparative information as well as short and medium-term targets. Material events up to the date of approval have been included.

This report examines our performance in relation to the sustainability dimensions, which underpin our strategy, taking into account our operating environment, long-term goals, risks that might prevent us from achieving those goals, and measures to mitigate them.

## Assurance & Audit Approach

Our combined assurance model is at three key levels, namely review by management and supplemented by internal auditors, external auditors and the Auditor General in order to optimize governance oversight, risk management and control. The Audit and Risk Management Committee and the Board rely on combined assurance in forming their view of the adequacy of our risk management and internal controls.

## Forward Looking Statements

Certain statements in this report regarding the business operations may constitute forward-looking statements. These include all statements other than those of historical fact, including those regarding the financial position, business strategy, management plans and objectives for future operations. Forward-looking statements can be identified by words such as “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, “plans”, “outlook” and other words of similar meaning in connection with a discussion of future operating or financial performance.

Forward-looking statements are dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised, and as such, are not intended to be a guarantee of future results, but constitute our current expectations based on reasonable assumptions. Actual results could differ materially from those projected due to various events, risks, uncertainties and other factors. KenGen neither intends to nor assumes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Principal Activities

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

## Results

	2015 Shs'000	2014 Shs'000
Profit before tax	8,690,012	4,157,948
Taxation credit /(charge)	2,827,315	(1,331,625)
<b>Profit for the year transferred to retained earnings</b>	<b>11,517,327</b>	<b>2,826,323</b>

## Dividends

Subject to the approval of the shareholders, the Directors recommend the payment of a first and final dividend of Shs 1.429 billion (2014: Shs 0.879 billion) for the year representing Shs 0.65 (2014: Shs 0.40) per issued ordinary share.

## Directors

The Directors who served during the period under review are:

Joshua K. Choge	Chairman
Albert Mugo	Managing Director & CEO
Henry Rotich	Cabinet Secretary, The National Treasury
Joseph Njoroge	Principal Secretary, Ministry of Energy & Petroleum
Dorcas Kombo	
Hedrick Omanwa	
Henry M'Narobi	
Ziporah Ndegwa	
Millicent Omanga	
Musa K. Arusei	(Appointed on 16 December 2014)
Kairu Bachia	(Appointed on 16 December 2014)
Humphrey Muhu	Alternate to Cabinet Secretary, National Treasury
Momata Gichana	Alternate to Principal Secretary, Ministry of Energy & Petroleum
George M. Njagi	(Retired on 16 December 2014)
Sarah W. Wainaina	(Retired on 16 December 2014)

## Auditors

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2015.

## By Order of The Board



**Millicent N. Omanga,**  
Director

**12 October, 2015**

# Highlights

## Installed Capacity (MW)

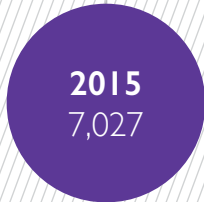
**+20%**



2014  
1,343

## Electricity Unit Sales (GWh)

**+15%**



2014  
6,084

## Electricity Sales (Shs'M)

**+47%**



2014  
17,424

## Total Revenues (Shs'M)

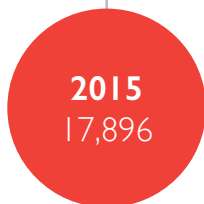
**+44%**



2014  
18,491

## Expenses (Shs' M)

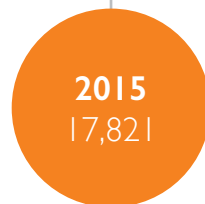
**+25%**



2014  
14,333

## EBITDA (Shs' M)

**+61%**



2014  
11,057



# Highlights

## Profit Before Tax (Shs' M)

+109%



## Profit After Tax (Shs'M)

+308%



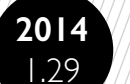
## EBIT (Shs'M)

+79%



## Earnings Per Share (Shs)

+306%



## Dividend Per Share (Shs)

63%



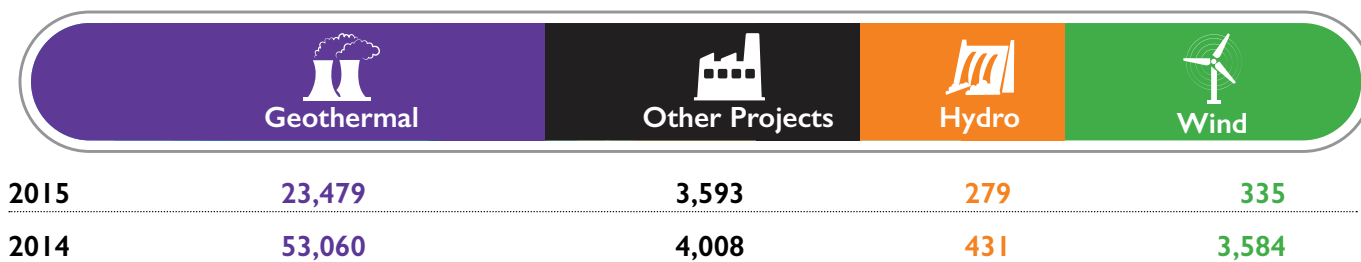
## Total Assets (Shs'M)

+37%

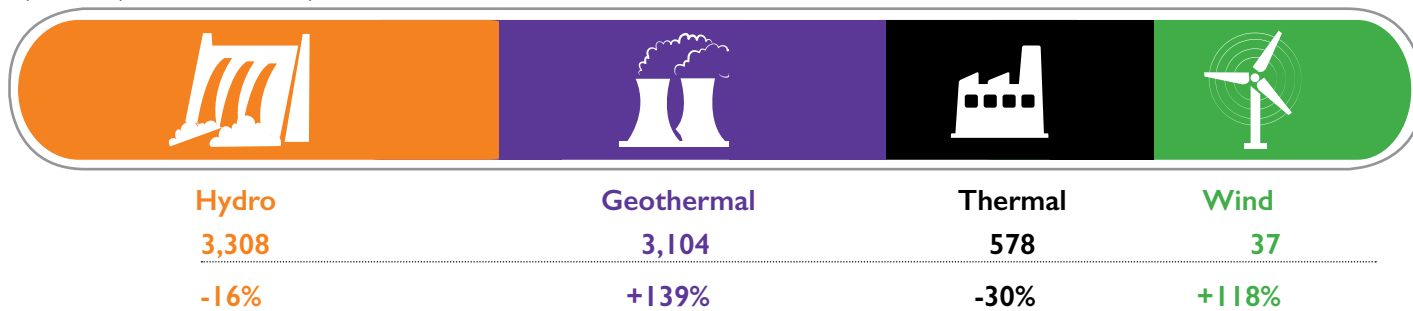


## Highlights

### Capital Investments (Shs' M)



### Generation by Source (GWh) (As compared with 2014)

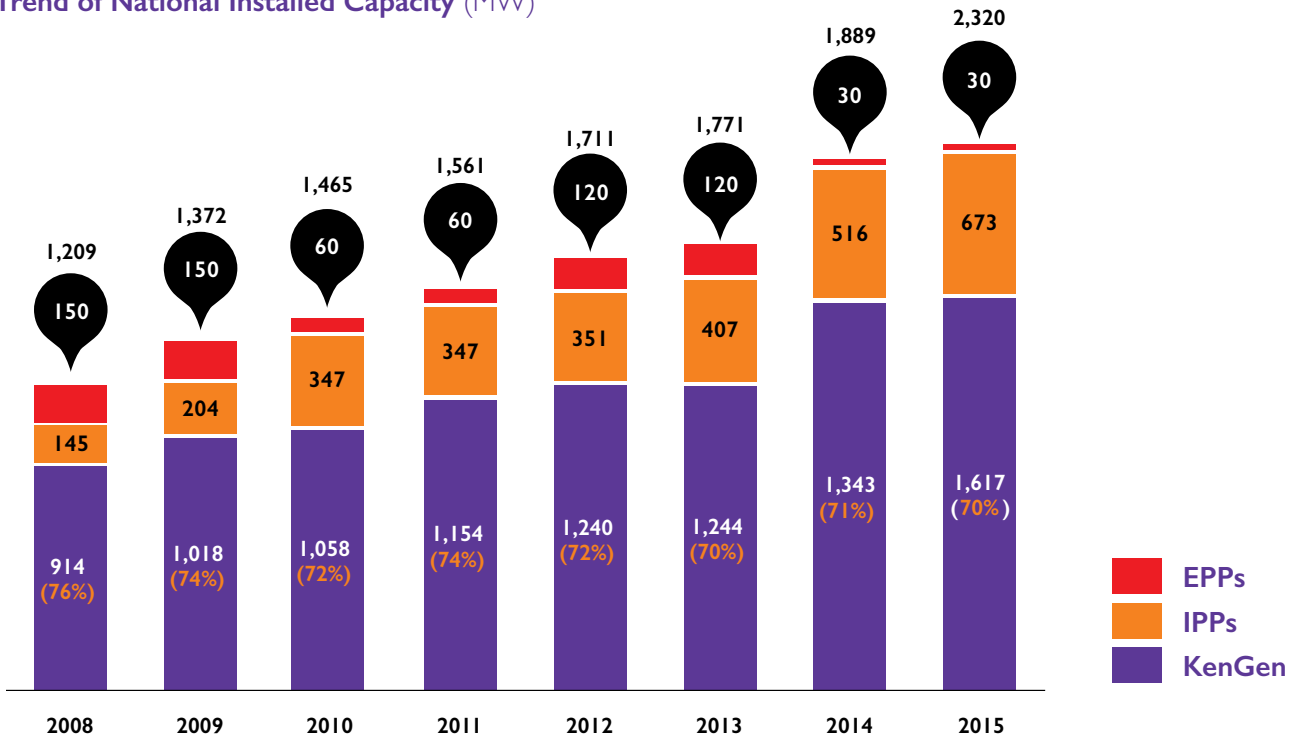


### Renewable Energy (MW)

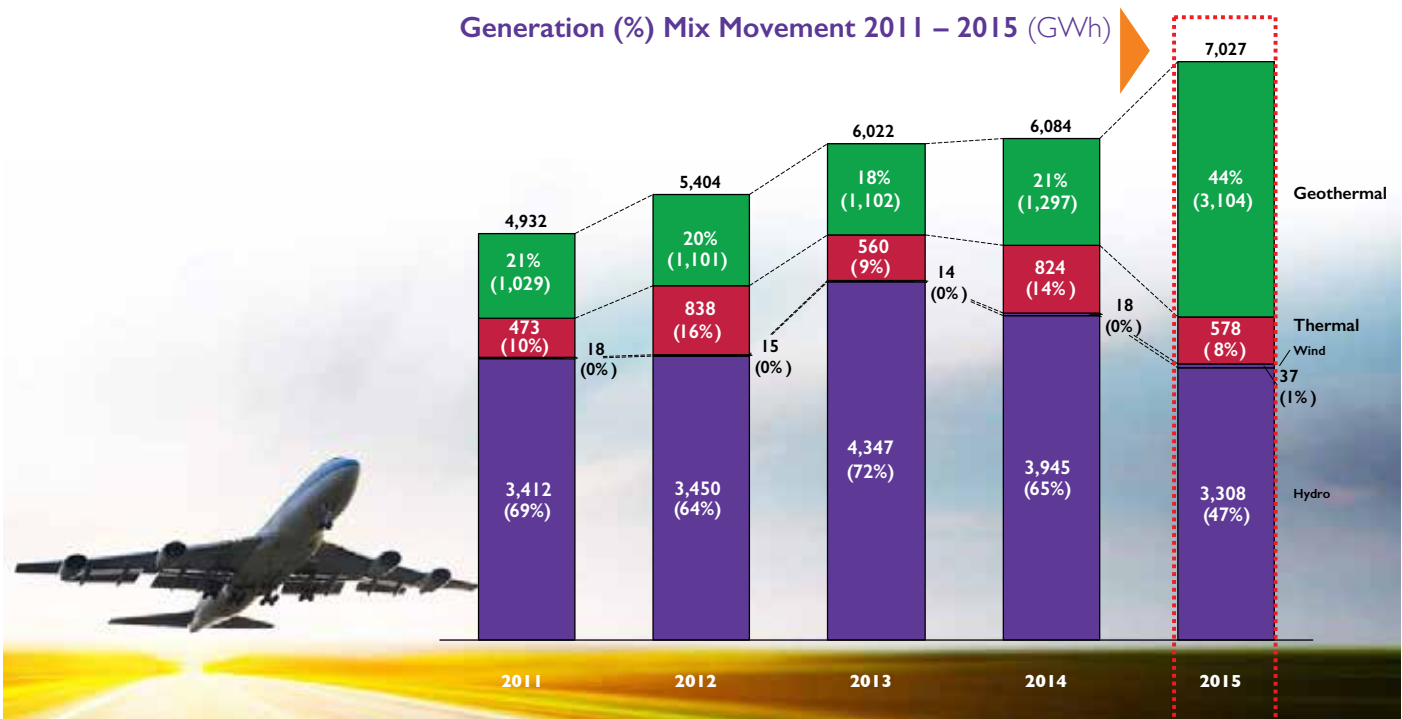
1,355



Trend of National Installed Capacity (MW)



Generation (%) Mix Movement 2011 – 2015 (GWh)



**GEOHERMAL MORE RELIABLE AND DROUGHT RESISTANT**  
KenGen on the transformation runway – jet fuel (geothermal steam)

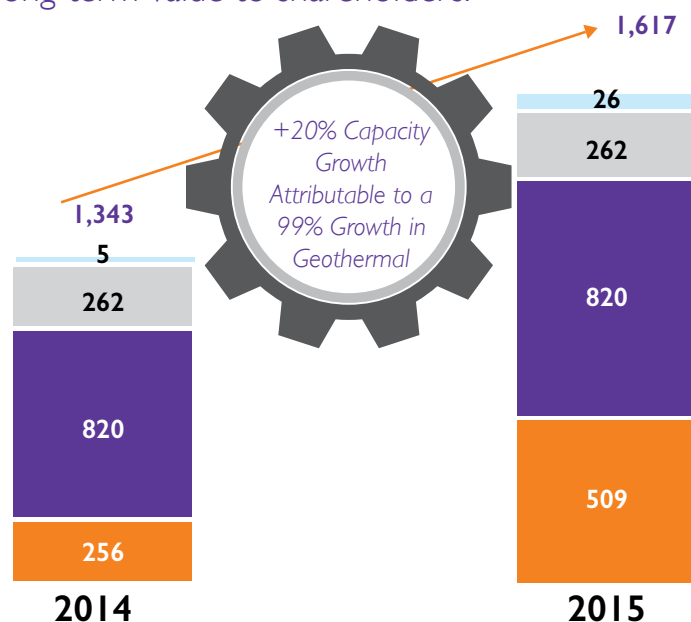
## Competitive Edge

KenGen's significant asset base, strong balance sheet and integrated model set apart from peers. We strive to be the reliable, affordable and competitively priced utility in our sector. Capitalizing and executing on these differentiators has contributed to our leadership position in the sector provided a foundation for delivering long-term value to shareholders.

### 1 Strong Capacity Growth

- Significant capital investments to grow profitability
- Large natural geothermal resource
- Capacity to execute large infrastructure projects

■ Geothermal
 ■ Hydro
 ■ Thermal
 ■ Wind



### 2 Industry Experience

- Over 61 years in power generation
- Decades of technical experience in developing and operating diversified modes of electricity generation through a talented work force
- Pioneering innovative technologies in energy to drive growth



### 3 Sustainable Development

- ISO 14001: 2014 Certification in environmental management
- Six projects registered under the Carbon Emissions Reduction targeted to reduce carbon emission by 1.5 Million tonnes per year
- In the process of setting up a carbon asset development center in Kenya



## Competitive Edge

### 4 Financial Strength

- Strong asset base to enable the development of long-life strategic projects
- Focus on capital discipline and proven ability to efficiently execute large infrastructure projects
- Returning value to shareholders through consistent dividend payments



### 5 Proven Value Chain Model

- We optimize profits through each value chain process
- We have invested in automated and sophisticated integrated information systems to provide accurate and timely information for decision making
- Operational efficiency of our facilities is continuously being enhanced through the adoption of international operating benchmarks



### 6 Recognition in Excellence of Financial Reporting & Corporate Governance (Annual FiRe Awards)

FINANCIAL REPORTING AWARD



## Wealth Created, Distributed & Reinvested

KenGen is a major participant in the energy sector and the economy. The Company continued to post major contribution to the economy through generation of electric energy by boosting conducive working environment for business, social investment and corporate sustainability. In the current financial year ended 30 June 2015, KenGen added value in the economy as shown below:

<b>Sharing of Wealth</b>	<b>2015</b>	<b>2014</b>
	<b>Shs'000</b>	<b>Shs'000</b>
<b>Wealth Created</b>		
Revenue	25,602,038	17,423,771
Interest income	359,082	416,154
Other income	624,585	650,896
Paid to suppliers of goods and services	(3,043,690)	(2,407,176)
Paid to youth, women and persons with disabilities (Government empowerment program)	(464,000)	(416,400)
	<b>23,078,015</b>	<b>15,667,245</b>
<b>Wealth Distribution</b>		
To employees as wages, salaries and other benefits	4,162,284	3,491,942
To welfare of our employees	346,238	341,304
To Train our people	91,478	207,243
To Financial Lenders as interest	3,010,659	2,587,519
To Shareholders as dividends	1,428,935	879,344
To community and Environmental conservation	298,399	153,018
	9,337,993	7,660,370
<b>Wealth Re-Invested</b>		
Retained profit in the company	10,088,392	1,946,979
Depreciation	6,478,945	4,728,271
Deferred taxation	(2,827,315)	1,331,625
	13,740,022	8,006,875
	<b>23,078,015</b>	<b>15,667,245</b>

## Five Year Profitability

### EBITDA for the last five years

	2015 Shs'000	2014 Shs'000	2013 Shs'000	2012 Shs'000	2011 Shs'000
<b>Revenue</b>					
Revenue	25,602,038	17,423,771	16,451,195	15,999,078	14,389,027
Other income	624,585	650,896	594,888	484,632	284,094
	<b>26,226,623</b>	<b>18,074,667</b>	<b>17,046,083</b>	<b>16,483,710</b>	<b>14,673,121</b>
<b>Expenses</b>	(8,406,089)	(7,017,417)	(6,115,738)	(5,535,596)	(4,992,499)
Employee expenses	(4,162,284)	(3,491,942)	(3,248,141)	(2,169,802)	(2,890,984)
Operating expenses	(4,285,122)	(3,592,594)	(2,814,490)	(3,212,983)	(2,541,184)
Other gains/(losses)	41,317	67,119	(53,107)	(152,811)	439,669
<b>Earnings before interest, taxes, depreciation, and amortisation (EBITDA)</b>	<b>17,820,534</b>	<b>11,057,250</b>	<b>10,930,345</b>	<b>10,948,114</b>	<b>9,680,622</b>
Depreciation and amortisation	(6,478,945)	(4,727,937)	(4,578,728)	(4,883,237)	(4,581,339)
<b>Earnings before interest and tax (EBIT)</b>	<b>11,341,589</b>	<b>6,329,313</b>	<b>6,351,617</b>	<b>6,064,877</b>	<b>5,099,283</b>
Interest income	359,082	416,154	676,109	952,621	548,975
Interest expense	(3,010,659)	(2,587,519)	(3,000,802)	(2,972,308)	(1,996,951)
<b>Profit before taxation (PBT)</b>	<b>8,690,012</b>	<b>4,157,948</b>	<b>4,026,924</b>	<b>4,045,190</b>	<b>3,651,307</b>
Tax	2,827,315	(1,331,625)	1,197,780	(1,222,590)	(1,571,186)
<b>Profit after tax (PAT)</b>	<b>11,517,327</b>	<b>2,826,323</b>	<b>5,224,704</b>	<b>2,822,600</b>	<b>2,080,121</b>
Other Comprehensive Income	54,246,437	1,243,851	(16,722)	(962,452)	(633,498)
<b>Total Comprehensive Income</b>	<b>65,763,764</b>	<b>4,070,174</b>	<b>5,207,982</b>	<b>1,860,148</b>	<b>1,446,623</b>
<b>EBITDA/Revenue</b>	<b>69.6%</b>	<b>63.5%</b>	<b>66.4%</b>	<b>68.4%</b>	<b>67.3%</b>

## Corporate Information

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### DIRECTORS

Joshua K. Choge	Chairman
Albert Mugo	Managing Director & CEO
Henry Rotich	Cabinet Secretary, The National Treasury
Joseph Njoroge	Principal Secretary, Ministry of Energy & Petroleum
Dorcas Kombo	
Hedrick Omanwa	
Henry M'Narobi	
Ziporah Ndegwa	
Millicent Omanga	
Musa K. Arusei	(Appointed on 16 December 2014)
Kairu Bachia	(Appointed on 16 December 2014)
Humphrey Muhu	Alternate to Cabinet Secretary, National Treasury
Momata Gichana	Alternate to Principal Secretary, Ministry of Energy & Petroleum
George M. Njagi	(Retired on 16 December 2014)
Sarah W. Wainaina	(Retired on 16 December 2014)

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### SECRETARY

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

### REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

LR No. 209/16012  
Stima Plaza, Kolobot Road  
P.O. Box 47936, 00100 GPO  
Nairobi

### PRINCIPAL AUDITOR

The Auditor General  
Anniversary Towers  
P.O. Box 30084 - 00100 GPO  
Nairobi

### REGISTRARS

Image Registrars Limited  
Barclays Plaza, Loita Street, 5th Floor  
P.O. Box 9287 - 00100 GPO  
Nairobi

### DELEGATED AUDITORS

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

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### PRINCIPAL BANKERS

#### Commercial Bank of Africa Limited

Wabera Street Branch  
P.O. Box 30437 - 00100 GPO  
Nairobi

#### NIC Bank Limited

Head Office, Masaba Road  
P.O. Box 48400 - 00100 GPO  
Nairobi

#### Barclays Bank of Kenya Limited

Naivasha Branch  
P.O. Box 46661 - 00100 GPO, Nairobi

#### Kenya Commercial Bank Limited

Moi Avenue Branch  
P.O. Box 24030 - 00100 GPO  
Nairobi

#### Citibank NA

Head Office, Upper Hill  
P.O. Box 30711 - 00100 GPO  
Nairobi

#### The Co-operative Bank of Kenya Limited

Stima Plaza Branch  
Kolobot Road, Parklands  
P.O. Box 48231 - 00100 GPO, Nairobi

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#### CfC Stanbic Bank Limited

Kenyatta Avenue Branch  
P.O. Box 30552 - 00100 GPO  
Nairobi

#### Standard Chartered Bank Kenya Limited

Harambee Avenue Branch  
P.O. Box 30003 - 00100 GPO,  
Nairobi





# LEADERSHIP OVERVIEW

KenGen is propelled by the Good-to-Great (G2G) transformation strategy of moving from a “Good Company” to a “Great Company” through the creation of sustainable value from “One Generation” to the “Next Generation”. As a result, the Company is able to efficiently generate competitively priced electric energy using a skilled and motivated human resource and state-of-the-art technology in line with its core values of professionalism, integrity, safety culture and team spirit.





# THE BOARD OF DIRECTORS



**FROM LEFT:** Hedrick Omanwa, Dorcas Kombo, Musa Arusei, Ziporah Ndegwa, Momata Gichana, Millicent Omanga, Albert Mugo (MD & CEO), Joshua Choge (Chairman), Henry M’Narobi, Rebecca Miano (Company Secretary), Humphrey Muhu, Kairu Bachia

**INSET (NOT IN THE MAIN PICTURE):** Henry Rotich & Joseph Njoroge (Right)

## Leadership Overview

### The Board



Joshua Choge



Albert Mugo



Henry Rotich



Joseph Njoroge



Dorcas Kombo



Hedrick Omanwa



Henry M'Narobi



Ziporah Ndegwa



Millicent Omanga



Musa Arusei



Kairu Bachia



Humphrey Muhu



Momata Gichana

### Joshua Choge

Mr. Joshua Kibet Choge, Chairman of KenGen Board of Directors, born in 1958, holds a Bachelor of Science degree in Mathematics and Statistics. Mr. Choge has a Masters degree in Management and Leadership from Management University of Africa and is currently pursuing a PHD degree in Leadership and Management at MUA. He is a trained accountant from Strathmore College and has been trained by the Chartered Institute of Purchasing and Supply UK on Procurement Management. Mr. Choge is an executive with over fifteen years' experience in the public sector in various positions including the Purchasing Manager and also the Deputy Chief Internal Auditor at East African Portland Cement.

Mr. Choge is fully conversant with corporate governance matters having attended the critically acclaimed Corporate Governance Training for Directors organised by the Centre for Corporate Governance. He has served as a Director at Agricultural Finance Corporation where he was the immediate former Deputy Chairman of the Board and the Chairman of the Finance and Business Committee of the Board.

He is an experienced businessman and a board member of several schools upcountry. He is also the Chairman of the Board of African Inland Church Kapsabet Bible College in Nandi County. Currently, Mr. Choge is the CEO of Talent Foundation International (TFI), a non-governmental organization that targets to identify and develop talent among needy children.

### Eng. Albert Mugo

Eng. Albert Mugo, born in 1957, holds a Bachelor of Science Degree in Electrical Engineering and Masters of Business Administration in Strategic Management, both from the University of Nairobi. In 2012, he completed the Advanced Management Programme from Strathmore University. He is a registered Professional Engineer with the Engineers Board of Kenya and a member of the Institution of Engineers of Kenya. Until his current appointment in January 2014 he was the Business Development and Strategy Director at KenGen.

He has worked in the Energy Sector for over 30 years. He started his career as a graduate electrical engineer in Kenya Pipeline Company, before moving to the Kenya Power & Lighting Company (then East African Power & Lighting

Company) where he worked as a protection engineer in various stations including the 7 Forks hydro complex. He then became a power system planner in the electricity sector in Kenya and Eastern Africa, a position involving power demand forecasting, carrying out studies for prospective power generating and transmission projects as well as development of power generation and transmission lines. He has experience in power sector electricity tariff formulation and development of private power projects. In 2008, he was appointed the Business Development and Strategy Director in Kenya Electricity Generating Company Ltd (KenGen) where he has been in charge of planning for the growth of the Company as well as implementation of power generating projects with major emphasis on geothermal development.

Eng. Mugo believes in value based leadership and is committed to transformational leadership within KenGen and in other entities where he serves. He serves as a Board member of the KenGen Retirement Benefits Scheme, Stima Sacco, and is the chairman of KenGen Foundation Board of Trustees.

### Henry K. Rotich

Mr. Henry K. Rotich is the Cabinet Secretary for National Treasury. Born in 1969, he holds a Masters Degree in Economics and a Bachelor's Degree in Economics (First Class Honours), both from the University of Nairobi. He also holds a Masters Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University.

Prior to his appointment as Cabinet Secretary, he the Head of Macroeconomics at the Treasury, Ministry of Finance where he served since March 2006. Under this capacity he was involved in formulation of macroeconomic policies that ensured an efficient and sustainable public spending aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in fiscal and financial sectors.

Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. Mr. Rotich is also a Director

## Leadership Overview

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on several Boards of State Corporations, including: Insurance Regulatory Board; Industrial Development Bank; Communication Commission of Kenya; and Kenya National Bureau of Statistics.

### Eng. Joseph Njoroge

Eng. Joseph Njoroge, the Principal Secretary, Ministry of Energy and Petroleum was born in 1958. He holds a First Class Honours degree in Electrical Engineering and Masters of Business Administration with a major in strategic management. He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of the Institution of Engineers of Kenya. He joined Kenya Power in 1980 and rose through the ranks to become the Managing Director from June 2007 until his current appointment. Eng. Njoroge is a distinguished electrical engineer with a career spanning three decades and has wide experience in power engineering and management.

### Dorcas Florence Kombo

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

### Hedrick Masaki Omanwa

Mr. Omanwa, born in 1965, holds both a BCom (Hons) degree in accounting and an MBA in finance from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and The Institute of Directors Kenya (IODK).

Mr. Omanwa is a career accountant with over 24 years extensive experience in both Public and Private Sectors Management. He is currently a private practitioner in Assurance, Consultancy, Taxation and Secretarial services with Omanwa & Associates a professional firm where he is also the Managing Partner since 2004.

### Henry Nyamu M’Narobi, MBS, HSC

Mr. M’Narobi, born in 1945, holds a BA (Hons) degree from the 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 has been the Chairman of the Presbyterian Foundation, Chairman/member of the Boards of Management for several schools & hospitals in Kenya and the Chairman of Rubate Teachers’ Training College. Mr. M’Narobi also assisted in projects catering for the needs of Liberian refugees in Cote D’Ivoire.

### Ziporah Nyakairo Ndegwa

Mrs. Ziporah Nyakairo Ndegwa, born in 1962, holds a Bachelors degree in Law and a diploma in legal practice from the Kenya School of Law. She is a member of the Law Society of Kenya and Christian Lawyers Fellowship. Mrs. Ndegwa is a practising lawyer since 1988 when she was admitted to the bar.

She previously served as a state counsel in the Law Reform Commission before entering private practice. Mrs. Ndegwa has been a principal partner in the firm of Maira & Ndegwa Advocates since 1996 during which she has engaged in civil, commercial and criminal litigation. In 2014 and 2015, she received training in Kenya and Dubai on management of Pension Schemes.

### Millicent Nyaboke Omanga

Ms. Millicent Nyaboke Omanga, born in 1982, holds a Bachelors degree in commerce. She is presently the founder and Managing Director of Milways Enterprises, a business which deals in construction, interior décor and import of furniture and electrical appliances. Ms. Omanga is a youth leader at Rimpa SDA Church.

### Musa Kipchirchir Arusei

Dr. Arusei, born in 1957, holds a Bachelor of Science degree (Geochemistry) from the University of Nairobi, Master of Science (Geothermal) from the University of Leeds, UK and a Doctor of Philosophy (Geochemistry) from Moi University.

He is currently a senior lecturer, Department of Chemistry

and Biochemistry at the University of Eldoret. Dr. Arusei supervises and marks thesis for doctorate and masters students. He has attended various local and international conferences on research in geochemistry field. He has also published several research publications and reports on geochemistry and geothermal studies.

Dr. Arusei has previously worked as a lecturer and assistant lecturer at the Department of Chemistry and Biochemistry at the University of Eldoret. He has also worked as a Geochemist in KenGen and the Ministry of Energy.

### Kairu Bachia

Mr. Bachia born, in 1959, holds a Bachelor of Arts degree in Building Economics from the University of Nairobi, and has attended the OMP & Master Negotiator Programs at Strathmore Business School. He is a Corporate member of the Institute of Quantity Surveyors of Kenya and the Architectural Association of Kenya; a member of Chartered Institute of Arbitrators and a Registered Quantity Surveyor with the Board of Registration of Architects and Quantity Surveyors.

Mr. Bachia is currently the Director of MIP Project Management Limited and Masterbill Integrated Projects. He has previously worked as a Quantity Surveyor at YMR Partnership and Ministry of Public Works.

He has also been the chairman of the Architectural Association of Kenya, Council Member of the Management of the Professional Centre for the Association of Professional Societies of East Africa and an Ethics & Practice Committee Member of the Board of Registration of Architects and Quantity Surveyors.

### Humphrey Muhu

Mr. Muhu, born in 1964, 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 also holds a Diploma in Financial Management from KCA University. He is the alternate director to the Cabinet Secretary, National Treasury. Mr. Muhu is an Economist with 20 years' experience in various government ministries and departments.

### Momata Gichana

Mr. Gichana, born in 1961, holds a BA (Econ) from the University of Nairobi and Master of Arts in Economics from Vanderbilt University, USA. He is the alternate director to the Principal Secretary, Ministry of Energy & Petroleum and is currently the Chief Finance Officer at the Ministry of Energy & Petroleum. He has attended several courses in public management, financial management and leadership at various universities in the US and UK. He has also attended and been awarded a certificate in Oil and Gas Management and Oil & Gas Financial Modelling from the International Human Resource Development Corporation (IHRDC). Mr. Gichana has over 30 years experience in economics budgeting and financial management in the Government of Kenya.

## Leadership Overview

### Chairman's Message



It gives me great pleasure to present to you this year's financial statements. On my second year as Chairman, I am pleased to report that we are delivering on our four key priorities; accelerated capital expansion, enhanced regulatory management, continued operational excellence and organisational health.



Joshua K. Choge,  
Chairman

#### Dear Shareholders,

Our success in achieving our strategic goals during the year enabled us to reframe the national power generation landscape. Geothermal energy dispatch in the next financial year will overtake hydro energy which has for a long time been the main source of power for our Country. This will now account for 51% of the energy consumed by Kenyans. The commissioning of Olkaria 280MW geothermal plant propelled Kenya to position of the eighth largest geothermal power producing country in the world.

This performance demonstrates how a focused strategy delivers success in a changing environment. As we survey the energy and economic macro-environment, we know that change can be swift. Changes to the global environment impact power demand and supply.

In the short term, the global outlook for energy markets is gradually strengthening. The world economy is projected to grow by 3.5% in 2015, buoyed by strong growth in advanced economies mainly as a result of low oil prices. Brent crude oil price averaged US \$109 in 2013, dropped to US \$99 in 2014 and ended at US \$55 in June 2015.

In Kenya, the big fall in crude oil prices has resulted in savings not only in petroleum products, but also in products that rely on fuel inputs. Kenya spends about US\$4 billion a year on oil imports - equivalent to 8.2% of gross domestic product. It is likely to save more than US \$1 billion in import bills. Likewise, lower fuel pass-through cost to electricity customers is expected to stimulate economic growth.

#### Robust Strategy

Becoming the market leader in the provision of reliable, quality, safe and competitively priced electricity underpins our corporate mission. In 2015, we commissioned 351MW; 330.6MW from Geothermal and 20.4MW from Wind, boosting our installed capacity to 1,617MW. This accounts for 70% of the national market.

We are making significant progress on our growth projects. We expect to commission an additional capacity of over 700MW by the year 2020. This investment attests to the Company's continued commitment to deliver value to shareholders. Our Good-to-Great mindset not only applies to how we run our existing operations but also to our expansion initiatives.

We are restructuring and strengthening our balance sheet to enhance our investment in new capacity projects. Our emphasis is on employing innovative technologies that will lead to competitive sources of power.

#### Innovation

The Company has young, talented, dynamic, creative and forward-thinking work-force whose focus is on developing innovative ways to produce, refine and create new energy solutions to benefit our shareholders and customers in the years ahead by keeping us competitive.

One of our innovation big wins is the geothermal wellhead power unit. Today, the mobile wellhead technology is now over three years old and we are continuing to break new grounds in energy generation through this technology.



Our team successfully pioneered this innovative idea that now enables us to produce up to 56.1MW of geothermal power long before a conventional power plant is constructed. This is expected to rise to 75MW at the end of December 2015. The success of this innovation proved the sceptics wrong. You will be learning from us shortly on the deployment of more wellheads.

The Company has a pipeline of new innovations. Key among them is setting up an Industrial Park. We have begun the process of setting up an industrial park in Olkaria to host energy intensive industries, bringing the power load close to the source.

We expect that some of the industries will consume geothermal steam directly. This park is one of the means of proactively narrowing the existing supply/demand gap. These industries will be located close to the power plants therefore utilizing energy effectively and also catalysing the growth of industries in and around Olkaria. It will also spur the local economy at Olkaria.

The success of this innovative technology underscores the importance of continuing our strategy of leveraging on innovation and continuous improvement. This is how we can compete more effectively on the global stage as we continue to create value for you.

### Financial Results

On the financial front, in 2015 we continued to return significant reward to shareholders by allocating Shs 1.429 billion to dividends, a 63% per cent increase from 2014.

The Company's dividend continues to be one of the most competitive, reliable and sustainable in the energy industry. The board recommends a final dividend of Shs 0.65 per share. If approved at this annual general meeting, the dividend will be paid out on or about 11 February 2016 to those shareholders whose names appear in the members register as at close of business on 14 December 2015.

On performance, KenGen achieved an excellent score on its Government of Kenya performance contract as set out in the year under review, this is the highest score on the Government scorecard. We ranked favourably compared with Governmental agencies.

### Stakeholder Relations

The Company consults regularly with a variety of stakeholders, including community leaders, the public, power sector players and investors. Our stakeholders are integral participants in the long-term planning and solutions of all our initiatives. We have a rigorous stakeholder engagement process based on principles of inclusiveness, accessibility, transparency and positive contribution. These principles provide the foundation on which all our stakeholder endeavours are based.

Our trust-based approach to stakeholder relations provides continued support for our operations and the opportunity to grow our business. Being a good neighbour is a responsibility we take seriously. Earning the trust and support of stakeholders is fundamental to meeting this responsibility.

### Corporate Governance

During the last AGM, Director Dorcas Kombo, Director Musa Arusei and Director Kairu Bachia were elected by the shareholders to the Company's board of directors. With this election, the Board has once again brought on board a robust mix of skills geared towards enhancing corporate governance in the Company.

As a Board, we are fully aware that our ambitious goals cannot be achieved without the commitment of our employees, customers, suppliers and all other stakeholders. We would like to thank each and every one of them for the confidence they have shown in KenGen.

I also wish to appreciate and thank the Government of Kenya for its goodwill and invaluable support to make our goals a reality.

Thank you.

**Joshua K. Choge,**  
Chairman

## Leadership Overview

### Ujumbe Kutoka Kwa Mwenyekiti



“Ni furaha yangu kuwasilisha kwenu taarifa za kifedha za mwaka huu. Huu ni mwaka wangu wa pili kama Mwenyekiti, ni furaha yangu kuripoti kuwa tumepata ufanisi katika nyanja nne kuu; upanuzi wa haraka wa mtaji wetu, usimamizi wa hali ya juu, utendakazi bora na hali nzuri ya Kampuni.”

Joshua K. Choge,  
Mwenyekiti

#### Wenyehisa Wapendwa,

Ufanisi wetu katika nyanja hizi nne umetuwezesha kubadilisha kwa kiwango kikubwa shughuli nzima ya uzalishaji umeme. Uzalishaji umememvuke sasa umechukua mahali pa umeme unaotokana na maji, ambao kwa miaka mingi umekuwa chanzo kikubwa cha umeme kwa nchi yetu. Kwa sasa inawakilisha asilimia 51 ya kawi inayotumiwa na wakenya.

Uzinduzi wa kiwanda cha kuzalisha MW 280 kutokana na mvuke uliifanya Kenya kuwa mzalishaji wa nane kwa ukubwa wa umememvuke duniani.

Matokeo hayo yanadhahirisha namna mkakati maalumu unaweza kuzalisha matunda katika mazingira yanayobadilika. Tunapochunguza mazingira ya kawi na kiuchumi, tunafahamu kuwa kunaweza kuwa na mabadiliko ya haraka. Mabadiliko duniani yanaweza kuathiri mahitaji na usambazaji wa umeme.

Kwa kipindi kifupi kijacho, masoko ya kawi yanaendelea kuimarika taratibu; uchumi wa dunia unakadiriwa kukua kwa asilimia 3.5 mnamo 2015 kutokana na kuimarika kwa chumi za mataifa makubwa kufuatia, hasa, kupungua kwa bei ya mafuta. Bei ya pipa moja ya mafuta ambayo 2013 ilikuwa inauzwa kwa Dola 109 ilipungua hadi Dola 99 mnamo 2014 na kupungua zaidi hadi Dola 55 Juni 2015.

Nchini Kenya, kupungua maradufu kwa bei ya mafuta ambayo hayajasafishwa kumechangia kupungua kwa bei ya bidhaa za petroli na pia zile zinazotegemea mafuta. Kenya hutumia takribani Dola 4 bilioni kila mwaka kuagiza

mafuta- sawa na asilimia 8.2 ya jumla ya mapato ya nchi. Inakisiwa kuwa itaokoa zaidi ya Dola 1 bilioni kwa fedha zinazotumika kuagiza mafuta kutoka nje. Vile vile, gharama ya chini ya mafuta ambayo wateja hutozwa inatarajiwa kusisimua ukuaji wa uchumi.

#### Mkakati Kabambe

Kuwa kiongozi katika uzalishaji wa umeme wa kutegemewa, wa kiwango cha juu, salama na wa bei nafuu ndio nguzo ya malengo yetu kama Kampuni. Katika mwaka uliomalizika, tulizindua uzalishaji wa MW 351; MW 330.6 kutokana na umememvuke na MW 20.4 kutokana na upepo, na hivyo kuongeza uwezo wetu wa kuzalisha hadi MW 1,617. Hii ni asilimia 70 ya uwezo wa uzalishaji umeme nchini.

Tunapiga hatua kubwa katika miradi yetu ya ustawi. Tunatarajia kuzindua zaidi ya MW 700 kufikia 2020. Uwekezaji huu ni thibitisho la kujitolea kwa Kampuni kuendelea kutoa thamani kwa washikadau. Mkakati wetu wa Bora hadi Bora Zaidi unatuongoza sio tu katika namna tunavyoendesha shughuli zetu lakini vile vile mipango yetu ya upanuzi.

Tunarekebisha na kuimarisha mizania yetu ili kuwekeza zaidi katika miradi mikubwa ya uzalishaji. Tutatilia maanani hasa matumizi ya teknolojia za kisasa ambazo zitawezesha mipango yetu kuzalisha umeme kwa gharama nafuu.

#### Ubunifu

Kampuni ina wafanyikazi chipukizi, waliojaliwa na vipawa, wenye nguvu na wenye maono. Azima yetu ni kutafuta mbinu za kuzalisha, kuboresha na kutoa umeme kwa njia ya

ubunifu kwa manufaa ya wenyehisa na wateja wetu katika siku sijazo na kutuwezeshwa kuwa mbele.

Mojawapo ya ubunifu uliotupa ufanisi ni uzalishaji umeme kupitia kwa mitambo juu ya visima vya umememvuke. Leo, teknolojia ya mitambo hiyo ya kuhamishwa- iliyoinduliwa na KenGen- imefikisha miaka mitatu na tunaendelea kutafuta mbinu zingine mpya za uzalishaji umeme kupitia teknolojia hii.

Wataalamu wetu walifanikiwa kutumia mbinu hii ambayo imetuwezeshwa kuzalisha MW 56.1 za umememvuke kupitia teknolojia hii kabla ya kiwanda chenye kujengwa. Kiwango hicho kinatarajiwa kuongezeka hadi MW 75 kufikia Desemba 2015. Ufanisi huu uliwazima wanaoshuku teknolojia hii. Tunawajulisha hivi karibuni matokeo mapya ya kuongeza megawati zaidi kupitia hii teknolojia.

Kampuni imeratibu msururu wa miradi mpya. Miongoni mwa mwao ni ujenzi wa Eneo la Kiviwanda. Tumeanzisha utaratibu wa ujenzi wa eneo la kiviwanda katika Olkaria ambapo kutakuwa na viwanda vinavyotumia kiwango kikubwa cha umeme, na hivyo kuleta umeme karibu na vyanzo vyake.

Tunatarajia kuwa baadhi ya viwanda vitatumia umememvuke moja kwa moja. Eneo hili la kiviwanda ni njia moja ya kupunguza upungufu uliopo wa usambazaji. Kampuni hizo zitakuwa karibu na viwanda vya umeme na kwa hivyo kutumia kawi kwa njia ifaayo na pia kuchochea ukuaji wa kampuni zinazohusiana katika eneo la Olkaria. Pia itanufaisha vikubwa biashara ya mashinani katika hili eneo la Olkaria.

Ufanisi wa teknolojia hii unadhihirisha umuhimu wa kuendelea na mkakati wetu wa kufaidi kutokana na ubunifu na uboreshaji wa huduma zetu. Hivi ndivyo tunaweza kushindana kikamilifu katika jukwaa la kimataifa huku tukiendelea kuunda thamani kwenu.

### Matokeo ya Kifedha

Kuhusu matokeo ya kifedha, mnamo 2015 tuliendelea kupata ufanisi mkubwa kwa wenyehisa wetu kwa kutenga Sh1.429 bilioni kama mgao wa faida ambayo ni nyongeza ya asilimia 63 ikilinganishwa na 2014.

Mgao wa faida wa Kampuni unaendelea kuwa bora, wa kutegemewa na kudumishwa katika sekta hii. Bodi inapendekeza mgao wa mwisho wa Sh 0.65 kwa kila hisa. Ikiwa utaidhinishwa kwenye mkutano huu mkuu wa kila mwaka, mgao huo utalipwa mnamo au karibu na Februari

11, 2016 kwa wenyehisa ambao majina yao yatakuwa kwenye sajili ya wanachama kufikia mwisho wa shughuli za siku mnamo Desemba 16, 2015.

Kuhusu utendakazi, KenGen ilipata alama - bora zaidi - kwenye mkataba wake na serikali kuhusu utendakazi kama tulivyowekewa katika kipindi kilichomalizika, haya ndio matokeo bora zaidi kwenye orodha ya Mashirika ya serikali. Tuliorodheshwa vyema dhidi ya mashirika mengine ya kiserikali.

### Uhusiano na Washikadau

Kampuni hushauriana mara kwa mara na washikadau mbalimbali wakiwemo viongozi wa kijamii, wananchi, wahusika kwenye sekta ya kawi na wawekezaji. Washikadau wetu ni washirika wakuu kwenye mipangilio yetu yote ya siku za baadaye. Tuna utaratibu mahususi wa kutangamana na wadau wetu unaojikita katika misingi ya ujumlishaji, upatikanaji, uwazi na mchango ufaao. Kanuni hizi zinatoa msingi ambapo ushirikiano wetu na washikadau unawekwa.

Mtazamo wetu wa kuwa na imani na wadau unatupatia uungwaji mkono kwa operesheni zetu na pia nafasi ya kukuza biashara yetu. Kuwa jirani mwema ni wajibu tunaochukulia kwa uzito. Kupata imani na uunguaji mkono na washikadau ni muhimu kutimiza wajibu huu.

### Maongozi ya Kampuni

Katika mkutano mkuu wa kila mwaka uliopita, wanachama watatu wa Bodi: Mkurugenzi Musa Arusei, Mkurugenzi Dorcas Kombo na Mkurugenzi Kairu Bachia walichaguliwa na wenyehisa kujiunga na Bodi ya Wakurugenzi. Kutokana na uchaguzi huu, bodi imekuwa na mchanganyiko wa vipawa unaonua kuimarisha maongozi bora ya kampuni. Kama Bodi, tunafahamu vyema kwamba malengo hayo makubwa ya Kampuni hayawezi kuafikiwa bila kujitolea kwa wafanyikazi wetu, wateja, wauzaji na washikadau wengine.

Tungependa kuwashukuru kila mmoja wao kwa imani yao kwa KenGen.

Ningependa kutambua na kushukuru Serikali ya Kenya kwa ukarimu wake na mchango wake mkubwa ambao ulifanikisha mipango yetu.

Asanteni.

**Joshua K. Choge,**  
Mwenyekiti

## Leadership Overview

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### Management Team



**Managing Director & Chief Executive Officer – Eng. Albert Mugo, BSc (Hons) Electrical Engineering, MBA (Strategic Management)**

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

Departments (additional direct reports): Internal Audit and Security & Integrity

**Operations Director – Eng. Richard Nderitu, Sc (Hons) Mechanical Engineering, R.Eng, MIEK, MKIM**

Responsible for co-ordinating operations and maintenance of generation fleet to ensure high plant availability; optimize operations & maintenance costs; continuous improvement and automation to align KenGen to latest technology in the market; rehabilitation and upgrade of Power Plants and co-ordination of power dispatch and scheduling of major plant outages. Facilitates design and implementation of optimum power evacuation arrangements and assist in Power Purchase Agreements and management of energy billing. Provides technical and bidding support for major KenGen projects in particular choice of technology and provide technical guidance during the project implementation.

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



**Company Secretary & Legal Affairs Director and Acting Human Resource & Administration Director – Rebecca Miano, OGW, LLB(Hons), Dip in Law KSL, PGDip Comparative Law, CPS (K)**

Responsible for driving the corporate governance agenda in the Company; providing guidance and support to the Board and is the secretary to the Board and all its Committees. In-charge of establishing and enforcing the corporate governance framework of the Company and safeguarding shareholders' interests. Legal counsel of the Company and ensures the Company is represented positively and credibly to the external environment. Custodian of the Company interests in regard to property and indemnity.

## Leadership Overview

Also responsible for human capital; planning, recruitment, development, performance management, reward and wellness. Responsible for harmonious employee relations, management of all the Company's logistics, fleet and facilities is abided to, with emphasis on comfort and convenience of employees.

Departments: Insurance, Legal, Shares & Securities, Property and Board Services, Administration, Human Resources and Performance & Change



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

Responsible for the Company's finances, financial reporting, information and tele-communication systems. In-charge of planning, sourcing and management of financial resources to achieve corporate objectives. Responsible for the prudent acquisition of Company resources and maintains a robust ICT system to support the operations of the Company.

Departments: Corporate Finance, Finance and Information Communication & Technology

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

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

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



## Leadership Overview

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**Business Development Director – Eng. Moses Wekesa BSc (Hons) Mechanical Engineering, MSc Mechanical Engineering (Applied Mechanics), Post-Graduate Certificate Project Planning, Appraisal & Financing, Registered Project Manager**

Responsible for driving the Company's core business of delivering on the overall strategic goal of capacity expansion through planning and execution of projects. This includes projects identification and appraisals, public private partnership (PPP) projects development framework and implementation of projects. Drives incubation and Implementation of new business ideas for sustainability. Leads a team that is in charge of the overall expansion of generation capacity. Manages and implements key energy sector transformational projects.

Departments: Project Execution, Capital Planning & PPPs and New Business

**Geothermal Development Director – Eng. Abel Rotich, BSc (Hons) Mechanical Engineering, R.Eng, MIEK, professional trainings in Power Generation and Management**

Responsible for overseeing the assessment and development of geothermal resources as well as the management of the reservoir, steam field and geothermal plant operations. This is in line with the Good-to-Great transformation strategy and Company's focus on green energy with a bias to geothermal energy development.

Departments: Geothermal Operations and Geothermal Resource Development



**Strategy & Business Performance Director – Eng. David Muthike, BSc (Hons) Electrical Engineering, MBA (Strategy), Diploma Projects**

Responsible for the development, implementation and review of the 'Good-to-Great Transformation Strategy', identifying and leading strategic initiatives and growth opportunities. Identifying and developing new revenue opportunities. Supporting the organization to maintain 'thought leadership' in the areas where we work in. Driving an innovation process that develops new ways of meeting our purpose. Leading and managing the organisation's performance management, evaluation and results based accountability system.

Departments: Strategy, Business Performance, Innovation and Knowledge Transfer



**Supply Chain Director – Philip Yego, BA (Economics), MBA (Finance), Diploma in Purchasing and Supplies**

Responsible for providing oversight in the efficient and effective operations of the supply chain function of the Company. A key aspect of this role is ensuring KenGen's planning, buying, and monitoring of procurement; and initiatives which support strategic organisational goals and objectives.

Departments: Supply Chain and Procurement

## Leadership Overview

### Managing Director & CEO's Statement



“KenGen is prepared for growth and committed to excellence. Our experience, discipline and strategy provide a resilience that our shareholders can depend on all the time.”

Eng. Albert Mugo,  
Managing Director & CEO

#### Dear Shareholders,

The year 2015 was one of tremendous change, accomplishment and celebration for KenGen. We transformed the Company by successfully completing one of the single largest geothermal power projects in the world - 280MW project in Olkaria.

We are looking forward to and are optimistic about the future. Our strategy is geothermal-led; we target to install an additional 720 Megawatts (MW) by the year 2020 out of which 580MW will come from geothermal sources. Our capacity addition projects are aligned with the country's medium term and Vision 2030 energy targets. New technologies, changing regulations, a growing power market and changing economic conditions mean that a significant number of challenges lie ahead.

We are innovating, operating efficiently, reducing expenses and expanding our capital expenditures to grow our business. During our 61 years of existence, we have overcome many obstacles to become the company we are today. We are gearing towards the vision of becoming the market leader in the provision of reliable, safe, quality and competitively priced energy in the Eastern Africa Region.

This vision is built on strategic pillars of capital expansion, regulatory management and operational excellence. These pillars are founded on a healthy, robust and effective organisation. We have transformed the way we manage all our functions. We are optimizing the utilization of resources available to us, laying the foundation for a leaner, more agile utility that makes a meaningful contribution to the country.

Yet a lot more needs to be done as the Company shoulders the bulk of supplying power for the nation's growth needs. We have stepped up to meet our contribution to the Government's 5000+MW capacity addition by December 2016. Under this plan KenGen had been tasked to deliver 844MW by 2016. Of this targeted capacity, we have already delivered 330.6MW of geothermal, 24MW of hydro, and 20.4MW of wind. A total of 375MW has been achieved from the target, leaving a balance of 469MW by 2016. The cost of delivering the additional 469MW into the national grid is estimated at Shs 120 billion. We are financially restructuring our balance sheet to create room for more debt as well as pursue off-balance sheet financing to meet this capital need. Careful financial planning will ensure a strong and solid future.

We have come a long way. The Company's earnings significantly grew in 2015, compared with 2014, largely due to our robust investment strategy and delivery of projects. Our improved operational performance, prudent spending, innovation and continuous improvement contributed to ending the year on a position of strength.

A vital portion of our value system is our continued commitment to safety. This commitment ensures that our employees have the tools, training and resources necessary to perform their jobs and return home unharmed at the end of each workday.

During the year fifty four accidents, incidents and near misses were reported. We have dedicated our efforts to secure all our work areas and invested in safety systems



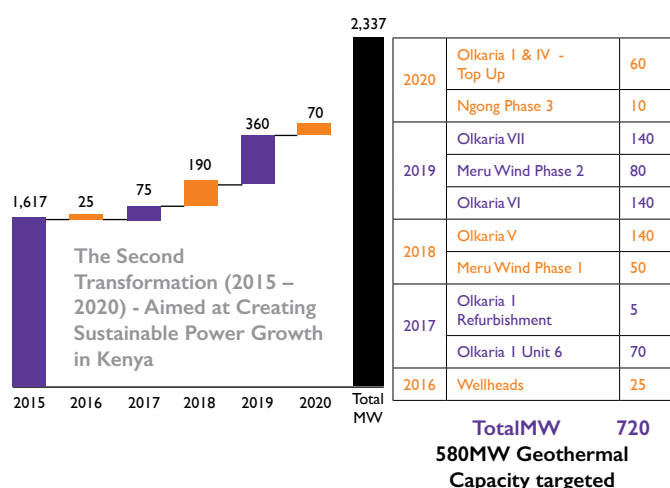
and procedures to guard against a recurrence. There were also two fire incidents in the Olkaria area, thankfully they caused no injuries and the equipment lost through the fires are being replaced. To enhance prompt response to incidents of fire and other incidents, we have increased the number of Fire Marshalls and First Aid responders as well as conducting regular safety drills.

## 2015 - Performance Energy For The Nation

Our ability to successfully plan, construct and operate power plants was evident again in 2015. Our geothermal capacity this year has grown to 508.8MW from 256MW in 2014. Our heavy investment in geothermal is strategic; it's beneficial to our economy as it does not require the importation of expensive fossil fuels, its reliable, renewable, mitigates the risks of hydro power interruptions during periods of drought and delivers value to shareholders.

We have invested in state-of-the-art technology to monitor, control and maintain our plants on a timely basis to ensure we have electric power available when the customers need it. We have launched a series of strategic initiatives to rise to the challenge of providing more power to meet the demands of our growing economy.

### HORIZON II TARGETS (MW) 2015 -2020



We expect to complete 25MW of early generation geothermal wellhead project by 2016, bringing the total capacity on wellhead generation to 75MW.

We are securing funds necessary to begin Olkaria I Unit 6 - 70MW and complete the upgrade of Olkaria I Units 1,2 and 3 to 50.7MW by 2017. The 140MW Olkaria V and Meru Wind phase I - 50MW expected to come on stream in 2018 have attracted funding from development

partners. We are in pursuit of a public private partnership to develop 140MW at Olkaria VI. We plan to invite reputable private firms to partner with us in developing this plant. This is in line with our strategy of looking for innovative and sound financing solutions to our growth projects. We anticipate that this project and 80MW Meru wind phase II will come on stream in 2019.

The country's demand for power by year 2020 is expected to cross the 6,000MW mark. We do not want to miss future growth opportunities simply because the capital required now seems unaffordable. Power plant development takes time. Success in the future is dependent on early planning. We have begun planning the drilling programme for 140MW Olkaria VII and 140MW Olkaria VIII plant. This plant are scheduled for delivery by the year 2020.

## Operational Performance

Power generation is a regulated business in Kenya; we therefore negotiate firm long-term power purchase agreements (PPA), commercially structured on a take-or-pay basis for the large power plants and a purely energy tariff for plants for small power plants with the off-taker. This structure is based on a formula that allows us to get a return on our investment.

Availability of reliable, clean, safe and quality power from these plants is not only in line with our overall objectives but also key to financial sustainability. In 2007, we begun broadening our capability to remotely monitor and control our plants. This investment has borne fruit as we are now able to maintain our plants fast and quickly resolve technical issues that could cause machine breakdowns.

Investment in Supervisory Control and Data Acquisition (SCADA) an early warning system in all our power plants has resulted in enhanced efficiency. We are re-engineering the control system at Tana power station to optimize availability. Control and protection systems in the Turkwel hydro plant have been rehabilitated to extend their life span. We are relocating the 30MW gas turbine situated at Embakasi in Nairobi, to Muhoroni to improve load management in Western Kenya. Cooling tower reconstruction has begun for the geothermal wellhead plant that caught fire during the year. Throughout the year, the Company maintained high availability thanks to efficient operation and maintenance programmes.

We are leveraging on technology to achieve operational excellence. Phase one rollout of an enhanced Enterprise

## Leadership Overview

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Resource Planning system was completed in 2011; we expect to launch the second phase in the coming year. This phase will be an internal performance-improvement initiative aimed at integrating the accountability system, standardizing, simplifying and further integrating our processes and systems. Establishment of a unified platform to integrate systems and processes is expected to grow our business and deliver value.

### Financial Results

The energy sector witnessed a remarkable achievement in the year as our mega 280MW project was inaugurated, adding impetus to the Government's 5000MW+ campaign to expand power generation and access.

We are happy to report that KenGen registered a historic milestone in capacity expansion, revenue and profitability following the completion of the project, which became fully operational from January 2015. Our performance was further enhanced by the installation of additional 25MW of wellheads, 20.4MW Ngong Wind and successful completion of works on Olkaria II power plant, which had been undergoing major maintenance. This has helped reduce the cost of electricity in the country by up to 30 percent.

Our installed capacity grew by 20% from 1,343MW in June 2014 to 1,617MW in June 2015, attributable to geothermal which increased by 99% and wind which recorded a growth of 420%.

Energy sales increased from 6,084GWh to 7,027GWh. Contribution from geothermal generation rose by 139% though it was only fully operational during the second half of the year. This has significantly reduced the over reliance on hydro generation which is vulnerable to weather conditions

Our total revenue grew from Shs 18,491 million in June 2014 to Shs 26,586 million in June 2015, an increase of 44% propelled by new capacity and additional generation. Operating revenue increased from Shs 18,075 million to Shs 26,227 million as a result of increase in capacity and energy revenues which recorded major gains. Geothermal contributed significantly to both capacity and energy revenue growth in the year under review compared to previous year. Wind generation also realized remarkable increase.

Operating expenses increased by Shs 1,388 million from Shs 7,018 million to Shs 8,406 million owing to the costs

associated with operating and maintaining the new plants. Depreciation and amortisation expenses also increased by Shs 1,751 million from Shs 4,728 million to Shs 6,479 million. Financing cost increased by Shs 423 million from Shs 2,588 million to Shs 3,011 million mainly due to interest on borrowings for the new plants.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) grew by 61% from Shs 11,057 million in June 2014 to Shs 17,821 million in June 2015. EBIT (Earnings Before Interest and Tax) also registered a growth of 79% from Shs 6,329 million to Shs 11,342 million driven mainly by increased revenue.

Profit before tax rose from Shs 4,158 million in June 2014 to Shs 8,690 million in June 2015, an increase of 109% while profit after tax increased by 308% from Shs 2,826 million to Shs 11,517 million propelled by capacity growth, improved performance, and tax credit from capital allowances enjoyed by the Company following the commissioning of 280MW geothermal plants, Wellheads in Olkaria and Ngong wind.

Other comprehensive income increased from Shs 1,244 million to Shs 54,247 million due to revaluation surplus from property, plant and equipment net of deferred tax.

Our asset base increased by 37% from Shs 250,206 million in June 2014 to Shs 342,520 million in June 2015. This was due to the completion of new plants and revaluation of existing property, plant and equipment which resulted in a surplus of Shs 77,203 million after revaluation by independent professional valuers in line with international best practice.

### Sustainability

Our sustainability strategy focuses on the new build projects, infrastructure upgrades, process optimization, generation sustainability, stakeholder management, asset maintenance and environmental sustainability. Innovation forms the backbone of our sustainability endeavour

### Innovation

The power sector in Kenya has a crucial mandate of delivering 5000+MW by December 2016. This requires concerted efforts from each and every player. We are focused on a paradigm shift in the way we conduct business in energizing Kenya's industries. We are constantly asking ourselves what we need to do differently to accelerate the provision of sufficient energy to propel our country to industrialization.

“Innovation is the mother of all invention”. Ideas that have changed the world have emanated from people choosing to try something different. Innovation is not an option but a crucial aspect that we must adopt in order to meet the ever-increasing power demands in this country. We are focused on the big picture of an industrialized country and a future in which Kenyan's will no longer see lack of electricity as a constraint to their economic progress.

We are prepared to boldly take calculated risks to make this happen. It is in line with this focus that we have an annual innovation seminar themed “G2G Technical Seminar” where staff across the Company share innovative ideas for continuous improvement ideas. This seminar is a forum to identify and discuss breakthrough concepts.

Since the inaugural G2G Technical Seminar in 2012, The Company has witnessed various breakthroughs in its business. The value injected into the business through the execution of ideas from the seminar include; the wellhead power plant concept with a current installed capacity of 56.1MW, a geothermal health spa in Olkaria and the provision of commercial drilling services to external companies among many other ideas. In the coming year, we expect to lay ground in the setting up of a world-class industrial park in Olkaria that will provide an attractive and competitive environment for energy intensive industries to operate and spur industrial and economic development in the country.

### Stakeholder Investments

Generation expansion, diversification of our revenue base, policies on risk management, human capital readiness and cost optimisation to maximise shareholder value ensure the relevance, profitability and financial sustainability of the Company.

We aim to transform our society through corporate social investment in education, health and developmental projects; as well as through increased allocation of procurement of goods and services to Kenyan residents and giving more emphasis to gender mainstreaming. Our direct contribution to this latter transformation is through the rollout of Government's policy of allocating 30% of tenders to the youth, women and persons with disability. During this year, we spent Shs 298 million on social investment activities.

The resettlement action plan for Olo Nong'ot, Olo Sinyat, Olo Mayana Ndogo and Cultural Centre, a sub-project of the 280MW Olkaria Geothermal project in Olkaria,

impacted a total of 1,181 people, who were resettled in new homes on 1,700 acres of land bought by KenGen to give way for the construction of power plants. This is a testimony of the Company's commitment to being a responsible corporate citizen.

We place a huge value in using a consultative approach in all our stakeholder engagements. To this end, we have launched Stakeholder Coordination Committees (SCC) in our areas of operation to ensure that all issues of concern are discussed and resolved. This has resulted in a harmonious co-existence with communities and other stakeholders operating in the neighbourhood of our facilities.

### Talent Management

Our talent management strategy focuses on driving a culture of performance and creating a productive workforce which includes building a strong, skilled and proactive team in order to sustain our business. We aim to recruit, develop and retain appropriately skilled, committed, engaged and accountable employees.

Our human capacity readiness focus aims to close skills gaps by coordinating, integrating and addressing employees' development needs. We acknowledge the importance of training and continue to ensure that our employees are suitably equipped for their roles.

KenGen had 2,407 employees as at 30 June 2015 compared to 2,209 in June 2014. The increase is as a result of staffing the new 280MW power plant in Olkaria as well as the geothermal drilling programme scheduled to deliver 580MW by 2020.

The Company has continued to enjoy good industrial relations with the trade union. This relationship is built on mutual understanding and partnership in growing our business.

Gender equity targets are put into consideration during recruitment. We have also established a disability policy to make our facilities more friendly to persons with disability. This includes an accessibility audit.

### Environment

KenGen continues to undertake Strategic Environmental Assessments (SEA) to not only protect the environment, but also promote sustainable development. The Company's conservation initiatives target catchment areas to ensure continuous availability of water. During the year the

## Leadership Overview

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Company raised a total of 284,000 tree seedlings across the country. Rehabilitation of bare land surface affected by the Olkaria 280MW projects was undertaken covering an area of approximately 502,895 km<sup>2</sup>.

The Company has registered six Clean Development Mechanism (CDM) projects with a potential emission reduction of 1.5 million tCO<sub>2</sub>e /year. Three of the projects have undergone successful verification and issuance of about 300,000 tCO<sub>2</sub>e of certified emission reduction (CERs), earning KenGen a gross revenue of about USD 2.7 million between 2013 and 2015.

With the Kyoto Protocol coming to an end, KenGen is seeking other avenues to trade its CERs. The voluntary carbon markets, the Japanese Joint Credit Mechanism (JCM) and the NSE Derivatives Exchange are possible alternatives that we are exploring.

### Future Outlook

#### Strategic Approach

The Company is establishing a combination of operational performance and organisational health initiatives to respond to two key issues; how we optimize existing assets and how we will deliver additional generation capacity.

Towards this end, KenGen has identified three key focus areas;

- Focus area A: Optimize performance of existing assets and delivering new assets;
- Focus area B: Grow in the non-traditional electricity environment such as forming Private Public Partnerships (PPPs) to compete with Independent Power Producers (IPPs);
- Focus area C: Diversify the portfolio broadly to participate in non-electricity generation ventures (non-core business model).

### Prospects

In 2016 we will continue to focus on safe, reliable, sustainable and profitable operations. We have a clearly defined long term growth plan to deliver 720MW by year 2020.

We will work to become the most reliable and competitively priced power generator in the sector, while exercising cost discipline and maintaining a strong balance sheet. We are also exploring broader modes of financing including the Public Private Partnerships (PPPs) to develop new capacity.

The organisation was restructured to strengthen leadership capacity in key directorates and intensify the pace of execution as well as deepen governance.

### Appreciation

I wish to convey my gratitude and appreciation to every shareholder, employee and stakeholder for working with our leadership to move towards our vision.

We are committed to operating within our financial means and in a way that does not compromise the sustainability of our company.

Together with Government, we will continue to seek financial solutions to ensure that we remain sustainable and able to deliver on our mandate.

Thank you.

**Eng. Albert Mugo,**  
Managing Director & CEO

### Ujumbe kutoka kwa Mkurugenzi Mkuu na Afisa Mkuu Mtendaji



“Ni furaha yangu kuwasilisha kwenu taarifa za kifedha za mwaka huu. Huu ni mwaka wangu wa pili kama Mwenyekiti, ni furaha yangu kuripoti kuwa tumepata ufanisi katika nyanja nne kuu; upanuzi wa haraka wa mtaji wetu, usimamizi wa hali ya juu, utendakazi bora na hali nzuri ya Kampuni.”

**Eng. Albert Mugo,**  
Mkurugenzi Mkuu & Afisa Mkuu Mtendaji

#### Wenyehisa Wapendwa,

Mwaka wa 2015 ulikuwa wa mabadiliko makubwa, ufanisi na sherehe kwa KenGen. Tulibadilisha Kampuni kwa kukamilisha ipasavyo mradi mkubwa zaidi ulimwenguni wa kuzalisha umememvuke-mradi wa kuzalisha MW 280 katika Olkaria. Sasa, tunaangalia mbele na tuna matumaini kuhusu siku za usoni. Mkakati wetu unaongozwa na umememvuke; tunalenga kuongeza uzalishaji wa Megawati 720 kufikia 2020, ambapo MW 580 tazalishwa kutokana na mvuke.

Uwezo wetu wa upanuzi utatokana na vyanzo vya umememvuke. Miradi yetu ya uzalishaji zaidi unaambatana na malengo ya nchi ya sasa na ya ruwaza ya 2030 ya mahitaji ya umeme. Tekinolojia mpya, mabadiliko ya kisheria, kupanuka kwa soko la umeme na mabadiliko ya mazingira ya kiuchumi yamaanisha kuwa kuna changamoto nyingi mbele yetu.

Tunavumbua, kuendesha shughuli zetu kwa njia bora zaidi, kupunguza gharama na kupanua miradi ya mtaji mkubwa ili kukuza biashara yetu. Katika muda wa miaka 61 tumehudumu, tumeshinda vikwazo vingi na kuwa tulivyo leo kama kampuni. Tunajiandaa kufanikisha maono yetu ya kuwa kiongozi katika uzalishaji wa umeme wa kutegemewa, salama, wa hali ya juu na bei nafuu katika kanda ya Afrika Mashariki.

Maono haya yamejikita kwenye nguzo muhimu za upanuzi wa mtaji, uzingatiji sheria na utendakazi ufaao. Nguzo hizi zinahudumu kwenye usimamizi bora, wenye nguvu na unaofaa. Tumegeuza namna tunavyosimamia utendakazi wetu.

Tunatumia kwa njia bora rasimilali zilizopo, kuweka msingi wa kampuni yenye idara chache, inayozalisha umeme wa kutosha kutoa mchango ufaao kwa nchi.

Hata hivyo kuna kibarua kizito mbele yetu Kampuni inapohitajika kutosheleza mahitaji ya nchi ya umeme ili kustawi. Tumejikaza kutoa mchango wetu kwa mradi wa Serikali wa kuzalisha MW 5,000+ kufikia mwisho wa 2016. Chini ya mpango huo wa serikali wa kuongeza MW5,000 zaidi, Kampuni imepewa jukumu la kuzalisha MW 844 kufikia 2016. Kati ya kiwango hicho, tayari tumezalisha MW330.6 za Umememvuke, MW 24 kutokana na maji na MW 20.4 kutokana na Upepo. Jumla ya MW375 zimezalishwa chini ya mpango huo na hivyo kuwa na pengo la MW469 kufikia mwisho wa 2016. Gharama ya kuzalisha MW 469 zaidi kama ilivyopangwa inakadiriwa kuwa Shs 120bilioni. Tunarekebisha mizania yetu ili tuwe na nafasi zaidi ya kukopa pamoja na kutafuta fedha zaidi kugharamia mahitaji haya ya mtaji. Mipango kabambe ya kifedha itahakikisha hali thabiti ya kifedha siku za usoni.

Tumetoka mbali. Mapato ya Kampuni yaliimarika pakubwa 2015 ikilinganishwa na 2014, hasa kutokana na mikakati yetu ya uwekezaji na kukamilika kwa miradi. Utendakazi wetu ulioimarika, matumizi bora ya fedha, ubunifu na uboreshaji wa utendakazi zilichangia Kampuni kumaliza mwaka na matokeo bora.

Kiungo muhimu katika mfumo wetu wa maadili ni kuzingatia usalama. Kujitolea huku kunahakikisha kuwa wanyikazi wetu wana vifaa, mafunzo na rasimilali

## Leadership Overview

zinazohitajika kufanya kazi zao na kurejea nyumbani salama kila siku.

Katika mwaka uliomalizika, ajali na matukio 54 yaliripotiwa. Tumejitolea kuimarisha usalama katika maeneo ya kufanyia kazi na kuwekeza katika mifumo ya usalama na taratibu za kukinga dhidi ya marudio ya mikasa kama hiyo. Kulikuwa pia na visa viwili vya moto katika eneo la Olkaria, lakini kwa bahati nzuri hakukuwa na majeraha yoyote na vifaa vilivyongua kutokana na moto huo vinanunuliwa. Ili kushughulikia kwa haraka visa vya moto, tumeongeza idadi ya Wahudumu wa Kukabiliana na moto na wale wa kutoa Huduma ya Kwanza pamoja na kuendesha kampeni za majaribio kuhusu namna ya kuitikia visa halisi vya kuzuka kwa moto.

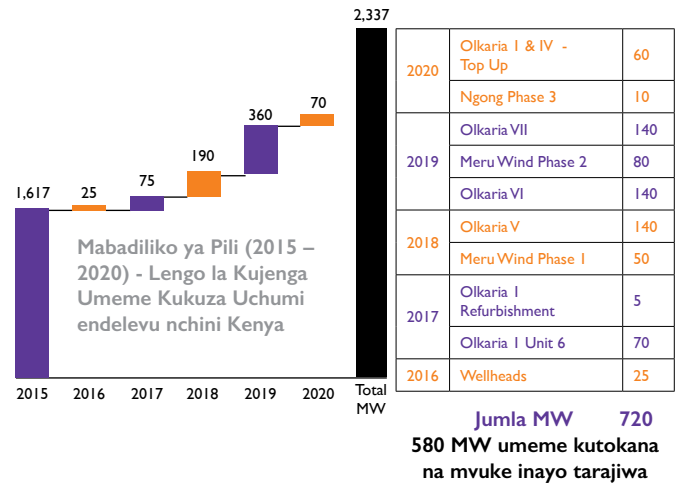
### 2015 - Matokeo Kawi kwa Taifa

Uwezo wetu wa kupanga, kujenga na kuendesha viwanda vya umeme ulidhihirika tena 2015. Uwezo wetu wa kuzalisha umememvuke mwaka huu uliongezeka hadi MW508.8 kutoka MW256 mnamo 2014. Uwekezaji wetu mkubwa katika umememvuke unalenga mbali; una manufaa kwa uchumi wetu kwa kuwa hauhitaji mafuta ghali, ni wa kutegemewa, usiomalizika, unapunguza athari ya kupotea kwa umeme unaozalishwa kutokana na maji katika vipindi vya kiangazi na hutoa thamani kwa wenyehisa wetu.

Tumewekeza katika teknolojia ya kisasa ili kufuatilia, kusimamia na kutunza viwanda vyetu kwa wakati ufaao kuhakikisha tuna umeme wakati wateja wetu wanauhiti. Tulizindua msururu wa mikakati kukabiliana na changamoto za kutoa umeme zaidi kutosheleza mahitaji ya uchumi wetu unaokua. Tunatarajia kukamilisha uzalishaji wa mapema wa MW 25 kutokana na mradi wa mitambo juu ya visima vya umememvuke. Kufikia 2016, na hii itafikisha jumla ya kiwango cha uzalishaji umememvuke kwa njia hii hadi MW 75.

Tunatafuta ufadhili unaohitajika kuanza ujenzi wa Olkaria I Unit 6 kuzalisha MW 70 na kukamilisha ukarabati wa vituo vya Olkaria I 1, 2 na 3 ili kuzalisha MW 50.7 kufikia 2017. Ujenzi wa kiwanda cha kuzalisha MW 140 kutokana na mvuke Olkaria V na mradi wa umeme upepo wa kuzalisha MW 50 wa Meru, awamu wa kwanza, ambao unatarajiwa kukamilika 2018 tayari umepata ufadhili kutoka kwa washirika wetu. Tunatafuta ushirikiano na mashirika ya kibinafsi kustawisha kiwanda cha Olkaria VI kuzalisha MW 140. Tunapanga kualika mashirika yanayosifika kushirikiana nasi kustawisha mradi huu. Tunakadiria kuwa mradi huu na

### MALENGO YA HORIZON II (MW) 2015 -2020



ule wa kuzalisha MW 80 kutokana na Upepo wa Meru awamu wa pili, utakamilika Desemba 2019.

Mahitaji ya umeme nchini kufikia 2020 yanatarajiwa kupita alama ya MW 6,000. Hatutaki kukosa nafasi za ukuaji wa biashara kwa sababu mtaji unaohitajika unaonekana kuwa ghali kwa sasa. Ujenzi wa viwanda vya umeme huchukua muda. Ufanisi katika siku zijazo unategemea mipangilio kabambe ya mapema. Tunaendelea kuchimba visima vya kuzalisha MW 280- MW 140 Olkaria VII na MW 140 Olkaria VIII kutokana na viwanda vya kawaida. Viwanda hivi vinapangiwa kukamilika kufikia 2020.

### Matokeo ya Utendakazi

Uzalishaji wa umeme ni biashara inayosimamiwa nchini Kenya; huwa basi tunajadiliana kuhusu mikataba ya muda mrefu ya ununuzi wa umeme (PPA), iliyo na umbo la kibiashara la chukua- au ulipe kwa viwanda vikubwa vya kuzalisha umeme na ada za malipo ya kawi kwa viwanda vidogo. Muundo huu unategemea fomula inayotuwezesha kupata faida kwa uwekezaji wetu.

Kuwepo kwa umeme wa kutegemewa, safi, salama na wa kiwango cha juu sio tu mojawapo ya malengo yetu makuu bali muhimu kwa ufanisi wetu wa kifedha. Mnamo 2007, tulianzisha utaratibu wa kufuatilia na kudhibiti kwa mbali viwanda vyetu. Uwekezaji huu umeanza kuzalisha matunda na sasa tuko na uwezo wa kurekebisha mitambo yetu kwa haraka na kutatua matatizo ya kiufundi ambayo yanaweza kuharibu mitambo mapema.

Uwekezaji wa mfumo wa kutoa tahadhari mapema Supervisory Control and Data Acquisition (SCADA) katika viwanda vyetu vyote vya kawi umeimarisha utendakazi. Tunazindua upya mfumo wa usimamizi wa kiwanda chetu

cha Tana ili kuboresha zaidi utendakazi. Mifumo ya uhibitibi na kinga katika kiwanda cha kuzalisha umeme kutokana na maji cha Turkwel imerekebisha kuongeza muda wao wa kuhudumu.

Tunahamisha Injini za Gesi za kuzalisha MW 30 katika eneo la Embakasi hadi Muhoroni ili kuimarisha usambazaji kawi Magharibi mwa Kenya.

Ujenzi wa mitambo ya kupunguza joto kwenye mitambo ya kiwanda juu ya kisima cha umememvuke ya kuhamishwa-iliyozinduliwa na KenGen iliyochomeka mwaka uliomalizika umeanza. Mwaka mzima, Kampuni ilizalisha umeme wa kutosha kutokana na mipango bora ya utendakazi na utunzaji. Tunatumia teknolojia kuboresha utendakazi wetu. Uzinduzi wa awamu ya kwanza ya mfumo wa usimamizi wa raslimali

Enterprise Resource Planning ulikamilika 2011; tunatajia kuzindua awamu ya pili ya mfumo huu katika mwaka unaokuja. Awamu hii itakuwa mpango wa kuboresha utendakazi wa ndani unaolenga kushirikisha mfumo wa uwajibikaji, usawazishaji, kurahisisha na kuunganisha tararibu na mifumo yetu. Uzinduzi wa jukwaa la pamoja kushirikisha mifumo na taratibu zetu unatarajiwa kustawisha biashara yetu na kutoa thamani kwa wenyehisa wetu.

### Matokeo ya Kifedha

Sekta ya Kawi ilipata ufanisi mkubwa katika mwaka uliomalizika kufuatia uzinduzi wa mradi wetu mkubwa wa uzalishaji MW 280 na hivyo kutia nguvu kampeni ya Serikali ya kuzalisha MW 5000+ kupanua uzalishaji umeme na kuongeza idadi ya wanaotumia umeme.

Tuna furaha kuripoti kwamba KenGen ilipata ufanisi wa kihistoria katika upanuzi wa uzalishaji, mapato na faida kufuatia kukamilika kwa viwanda vya kuzalisha MW 280 vya Olkaria ambavyo vilianza kufanya kazi Januari 2015. Utendakazi wetu uliimarishwa hata zaidi na ujenzi wa mitambo miwili mipya kwenye visima vya kuzalisha umememvuke -teknolojia ya mitambo hiyo ya kuhamishwa-iliyozinduliwa na KenGen kuzalisha MW 25, kiwanda cha Upepo cha Ngong' cha kuzalisha MW 20.4 na kumalizika kwa shughuli za ukarabati wa kiwanda cha Olkaria II. Yote hayo yanatarajiwa kupunguza gharama ya umeme kwa asilimia 30.

Jumla ya uwezo wetu wa uzalishaji uliongezeka kwa asilimia 20 kutoka MW 1,343 mnamo Juni 2014 hadi MW 1,617 Juni 2015, kutokana na umememvuke ulioongezeka kwa asilimia 99 na Upepo uliohuhudia ukuaji wa asilimia 420.

Mauzo ya kawi yaliongezeka kutoka GWh 6,084 hadi GWh 7,027. Mchango kutokana na uzalishaji wa umememvuke ulipanda kwa asilimia 139 ingawa mitambo hiyo ilianza kutumika katika nusu ya pili ya mwaka. Hii imepunguza pakubwa utegemeaji wa uzalishaji umeme kutokana na maji ambao unaathiriwa pakubwa na hali ya anga.

Mapato yetu ya jumla yalipanda kutoka Shs 18,491 milioni mnamo Juni 2014 hadi Shs 26,586 milioni mnamo Juni 2015, nyongeza ya asilimia 44 iliyochochewa na viwanda vipya vya uzalishaji. Mapato ya jumla yaliongezeka kutoka Shs 18,075 hadi Shs 26,227 kutokana na upanuzi wa uwezo wetu wa uzalishaji na mapato yetu ya kawi yaliyoimarika pakubwa. Umememvuke ulichangia pakubwa katika kuimarisha uwezo wetu wa uzalishaji pamoja na mapato yetu katika mwaka unaoangaziwa ikilinganishwa na mwaka uliopita.

Uzalishaji umeme kutokana na upepo pia uliongezeka pakubwa. Gharama za utendakazi ziliongezeka kwa Shs 1,388 milioni kutoka Shs 7,018 milioni hadi Shs 8,406 milioni kutokana na gharama zinazohusishwa na operesheni na utunzaji wa viwanda vipya.

Gharama za kupungua kwa thamani na kudidimika kwa thamani ya vifaa vyetu iliongezeka kwa Shs 1,751 milioni kutoka Shs 4,728 milioni hadi Shs 6,479 milioni. Gharama ya ukopesaji ilipanda kwa Shs 423 milioni kutoka Shs 2,588 milioni hadi Shs 3,011 milioni hasa kutokana na mikopo ya viwanda vilivyokamilika.

EBITDA (Mapato Kabla riba, Kodi na uchakavu) ilipanda kwa asilimia 61 kutoka Shs 11,057 milioni mnamo Juni 2014 hadi Shs 17,821 milioni mnamo Juni 2015. EBIT (Mapato Kabla riba na Kodi) pia ilishuhudia ukuaji wa asilimia 79 kutoka Shs 6,329 milioni hadi Shs 11,342 milioni kutokana hasa na kusimarika kwa mapato.

Faida kabla ya ushuru iliongezeka kutoka Shs 4,158 milioni mnamo Juni 2014 hadi Shs 8,690 milioni mnamo Juni 2015, nyongeza ya asilimia 109 huku faida baada ya ushuru ikipanda kwa asilimia 308 kutoka Shs 2,826 milioni hadi Shs 11,517 milioni kutokana na kupanuka kwa uwezo wetu wa uzalishaji, kuimarika kwa utendakazi na nafuu ya ushuru Kampuni ilipata kutokana na uzinduzi wa viwanda vya Umememvuke vya MW 280, mitambo ya muda juu ya Visima vya Umememvuke katika Olkaria na Ngong Wind.

Mapato mengine yaliimarika kutoka Shs 1,244 milioni hadi Shs 54,247 milioni kutokana na mapato ya ziada baada ya vifaa vyetu kufanyiwa tathmini upya, baada ya kutoza ushuru ambao haukuwa umesalimishwa.

## Leadership Overview

Thamani ya vifaa vyetu iliongezeka kwa asilimia 37 kutoka Sh250,206 milioni mnamo Juni 2014 hadi Sh 342,520 milioni mnamo Juni 2015. Hii ni kutokana na kukamilika kwa viwanda vipya na kutathmini upya mali na vifaa vyetu ambao ulizoa mapato ya ziada ya Sh 77,203 milioni baada ya tathmini kufanywa upya na wachunguzi huru sambamba na viwango bora vya kimataifa.

### Uendelezaji

Mkakati wetu wa uendelezaji unalenga msururu wa miradi mipya ya ujenzi, ukarabati wa miundomsingi, uboreshaji wa taratibu za kibiashara, kuhudumia washikadau, utunzaji wa vifaa pamoja na mazingira. Ubunifu ndio nguzo ya jitihada zetu za uendelezaji.

### Ubunifu

Sekta ya kawi nchini ina jukumu muhimu la kuzalisha MW 5000+ kufikia Desemba 2016. Hii inahitaji jitihada za pamoja kutoka kwa kila mhusika. Tunalenga kubadilisha namna tunavyoendesha shughuli zetu za kutoa umeme kwa viwanda vya Kenya. Tunajihoji kila wakati kile tunachohitaji kubadilisha ili kuharakisha uwezo wa kutoa umeme wa kutosha kustawisha nchi yetu kiviwanda.

“Ubunifu ndio chanzo cha Uvumbuzi.” Mawazo yaliyobadilisha ulimwengu yametokana na watu walioamua kufanya mambo kwa njia tofauti. Ubunifu si chaguo bali hatua muhimu inayopasa kukumbatiwa ili kutosheleza mahitaji ya umeme yanayozidi kuongezeka nchini. Tunalenga taifa lililostawi kiviwanda na hali ya baadaye ambapo Wakenya hawataona ukosefu wa umeme kama kikwazo kwa ustawi wao kiuchumi. Tuko tayari kukabiliana na hatari fulani ili kufanisha yote hayo. Ni kutokana na hayo ambapo tunakuwa na semina ya kila mwaka kuhusu ubunifu “G2G Technical Seminar” ambapo wafanyikazi kutoka vitengo tofauti vya kampuni hutoa maoni ya ubunifu na namna ya kuboresha huduma za Kampuni. Semina hii ni jukwaa la kutambua na kujadili dhana za kipekee.

Tangu kuanzishwa kwa Semina ya Kiufundi ya G2G mnamo 2012, Kampuni imeshuhudia ufanisi tofauti katika biashara yetu. Ufanisi uliopatikana kutokana na mawazo kutoka kwa semina hiyo ni dhana ya ujenzi wa viwanda vya muda juu ya visima vya umeme ambavyo vimetuwezesha kuzalisha MW 56.1, kituo cha kuogelea kinachotumia umememvuke cha Olkaria na utoaji wa huduma za uchimbaji kwa mashirika mengine miongoni mwa ufanisi mwingine.

Katika mwaka unaokuja, tunatarajia kuanzisha mipango ya ujenzi wa eneo la kiviwanda katika Olkaria ambalo litatoa

mazingira bora na ya kuvutia kwa kampuni zinazotumia umeme mwingi ili kuchochea ustawi wa kiviwanda na kiuchumi nchini.

### Uwekezaji wa Washikadau

Upanuzi wa uzalishaji wetu na mapato yetu, sera za kudhibiti hatari za kibiashara, mafunzo kwa wafanyikazi na matumizi bora ya fedha ili kutoa thamani kwa wenyehisa uhakikisha umuhimu, faida na utegemeaji wa kifedha wa Kampuni.

Tunalenga kubadilisha jamii yetu kupitia kwa mpango wetu wa kuagiza bidhaa kutoka kwa jamii hizo, pamoja na miradi ya uwekezaji wa kampuni kuwajibika kwa jamii. Mchango wetu wa moja kwa moja katika mabadiliko hayo ni kupitia utekelezaji wa sera ya Serikali ya kutenga asilimia 30 ya zabuni zetu kwa vijana, wanawake na wasiojiweza.

Katika mwaka uliomalizika, tulitumia Sh298 milioni katika miradi ya kijamii. Mpango wa kutoa makao katika Olo Nongot, Olo Sinyat, Olo Mayana Ndogo na Cultural Centre, mradi mdogo wa kiwanda cha umememvuke cha Olkaria cha MW 280 uliathiri watu 1,181 ambao walipewa makazi mapya ili kutoa nafasi ya ujenzi wa kiwanda cha umeme kwenye ekari 1,700 za ardhii iliyonunuliwa na KenGen. Hili ni thibitisho la kujitolea kwa Kampuni kuwa raia mwema anayewajibika kwa jamii.

Tunathamini majadiliano na washikadau wetu. Hivyo basi, tulianzisha Kamati Shirikishi za Washikadau (SCC) katika maeneo tunakohudumu kuhakikisha masuala yoye muhimu yanayoweza kuzua joto yanajadiliwa na kutatuliwa. Hii imechangia uhusiano mwema kati ya wenyeji na washikadau wengine wanaoishi karibu na maeneo ya vifaa vyetu.

### Usimamizi wa Wafanyikazi

Mkakati wetu wa usimamizi wa wafanyikazi unalenga kukuza desturi ya utendakazi na kuwa na wachapakazi inayohusisha kuwa na kundi lenye nguvu, lililo na vipawa na kuchukua hatua zifaazo ili kudumisha biashara yetu. Tunalenga kuajiri, kustawisha na kuhifadhi wafanyikazi wenye vipawa, waliojitolea na wanawajibika ili kuendeleza biashara yetu. Kulenga umakinifu wa wafanyikazi wetu unanua kuwapa vipaji vinavyohitajika kwa kutambua, kujumuisha na kushughulikia mahitaji yote ya ustawi wa wafanyikazi. Tunatambua umuhimu wa kutoa mafunzo na tunaendelea kuhakikisha wafanyikazi wetu wanapewa kila wanachohitaji kutekeleza majukumu yao.



KenGen ilikuwa na wafanyikazi 2,407 kufikia Juni 30, 2015 ikilinganishwa na 2,209 mnamo Juni 2014. Nyongeza hii ya wafanyikazi ni kutokana na uajiri wa wahudumu katika kiwanda kipya cha MW 280 cha Olkaria pamoja na mpango wa uchimbaji visima vya umememvuke unaotarajiwa kuzalisha MW 580 kufikia 2020.

Kampuni imeendelea kuwa na uhusiano mwema na chama cha wafanyikazi. Uhusiano huo umejikita kwenye maelewano ya pande zote mbili na ushirikiano wa kukuza biashara yetu. Usawa wa kijinsia unatiliwa maanani tunapoajiri. Pia tumeanzia sera ya ulemavu kufanya vifaa vyetu kuhudumia walemavu kwa njia ifaayo, ikiwa ni pamoja na ukaguzi wa uwezo wa kufikia vifaa hivyo.

### Mazingira

KenGen inaendelea kutekeleza Tathmini Muhimu ya Kimazingira (SEA). Tathmini hizi huhifadhi mazingira na pia kuhakikisha uendelezaji wa biashara. Harakati za Kampuni za kutunza mazingira hulenga maeneo ya chemichemi za maji ili kuhakikisha kuna maji na mvuke kila mara.

Katika mwaka uliomalizika, Kampuni ilipanda jumla ya miche 284,000 kote nchini. Urekebishaji wa eneo lililoachwa wazi kutokana na miradi ya MW 280 ya Olkaria ulifanywa kwenye eneo la takribani kilomita 502,895 mraba.

Kampuni imesajili miradi sita ya Ustawi wa Umeme Safi (CDM) ambayo ina uwezo wa kupunguza utoaji wa hewa chafu kwa 1.5 million tCO<sub>2</sub>e /kwa mwaka. Miradi mitatu kati ya hiyo imechunguzwa na kuidhinishwa na kukabidhiwa 300,000 tCO<sub>2</sub>e (CERs) na kuipatia KenGen jumla ya Dola 2.7milioni kati ya 2013 na 2015.

Huku Mkataba wa Kyoto ukielekea ukingoni, KenGen inatafuta njia zingine za kubadilishana CER zake. Masoko ya kujitolea ya hewa ya Kaboni Japanese Joint Credit Mechanism (JCM) na NSE Derivatives Exchange ni miongoni mwa masoko mbadala tunaangalia.

### Hali ya Baadaye

#### Mikakati muhimu

Kampuni inazingatia mchanganyiko wa matokeo ya utendakazi na hali ya Kampuni kushughulikia masuala mawili muhimu; jinsi ya kutumia ipasavyo vifaa vilivyopo na jinsi ya kupanua uwezo wetu wa uzalishaji umeme zaidi. Ili kuafikia malengo haya, Kampuni imetambua nyanja tatu muhimu ambazo zimeorodheshwa kama ifuatavyo;

- Eneo la kuangazia A: Kutumia kwa njia bora zaidi vifaa vilivyopo na kununua vifaa vipya;

- Eneo la kuangazia B: Kustawisha nyanja zisizo za kawaida za ustawi wa umeme kama vile kubuni ushirikiano na mashirika ya kibinafsi (PPP) kushindana na Wazalishaji Huru wa Umeme (IPPs);
- Eneo la kuangazia C: Kupanua vyanzo vyetu vya mapato ili kushiriki kwenye shughuli zingine mbali na kuzalisha umeme (muundo wa kushiriki kwenye biashara nyingine).

#### Matarajio

Mnamo 2016 tutaendelea kuangazia katika operesheni za kuzalisha umeme salama, wa kutegemewa na kwa njia ya kudumishwa. Tumeunda mpango kabambe wa ustawi kuzalisha MW 720 kufikia 2020.

Tutajikakamua kuwa mzalishaji wa umeme nafuu na wa kutegemewa, huku tukidhibiti gharama ili kuwa na mizania nzuri. Pia tunatafuta njia mbalimbali za ufadhili ukiwemo ushirikiano na Mashirika ya Kibinafsi (PPPs) kupanua uwezo wetu wa uzalishaji. Kampuni ilifanyiwa mabadiliko kudhibiti usimamizi katika vitengo tofauti na kuharakisha utekelezaji na kuboresha usimamizi.

#### Shukrani

Ningependa kutoa shukrani zangu kwa kila mwenyehisa, mfanyikazi na mshikadau kwa kufanya kazi pamoja nasi ili kusonga mbele kuelekea maono yetu. Tunajitolea kuendesha shughuli zetu kutokana na mapato yetu na kwa namna ambayo haitahujumu hali ya baadaye ya Kampuni yetu. Pamoja na Serikali, tutaendelea kutafuta ufadhili kuhakikisha tuko imara kifedha na tunaweza kutekeleza wajibu wetu.

Ahsanteni.

#### Mha. Albert Mugo,

Mkurugenzi Mkuu & Afisa Mkuu Mtendaji

# Shareholders Tour 2015

SHAREHOLDERS TOUR  
2015



# CORPORATE GOVERNANCE STATEMENT

Corporate Governance comprises the rules, practices and processes by which KenGen is directed and controlled and involves balancing the interests of stakeholders who include shareholders, management, customers, suppliers, financiers, government and the community. It also provides the framework for attaining our objectives; and encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.



## Corporate Governance Statement

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**KenGen has engrained corporate governance as the pivotal institutional framework through which its strategic objectives of the Company are set, attained and its performance monitored. The Board has embraced this function to direct, control and be held to account by the shareholders. Governance dictates the modus operandi of engagement and interaction between the Company's Board, management, stakeholders and regulators for the sustainable benefit of the shareholders.**

### Statement of Compliance

Adherence to the highest ethical standards and embracing global best practice in KenGen's decision-making structures has ensured compliance with applicable legal principles. The corporate vision, mission and core values underpin the Company's transformation philosophy of achieving sustainability in value creation from generation to generation.

KenGen fully ascribes to its obligations as a listed company in compliance with the Capital Markets Authority (CMA) Corporate Governance Guidelines and the ethical standards prescribed in the Company's Code of Conduct.

The Company is also in compliance with the governance tenets of the recently developed "Code of Governance for Government Owned Entities (Mwongozo Code)" which are inherent in the existing CMA Code of Governance Guidelines. The Mwongozo Code offers a corporate governance code for all state corporations in which Government holds ownership. The Mwongozo Code is in tandem with the CMA Corporate Governance Guidelines.

As a law abiding corporate citizen, the Company is living the tenets of the Constitution of Kenya and complying with the provisions of relevant statutes such as the Energy Act 2006, Public Procurement & Disposal Act 2005, Employment Act 2007 and Occupational Safety & Health Act 2007.

During the year, the Company was re-certified to ISO 9001:2008-Quality Management System and ISO 14001:2004-Environmental Management System. This is a recognition and demonstration of continual excellence in pursuit of the organization's operations.

KenGen in its enviable position as a listed company, actively participated in policy review of various investor-specific legislation conducted by CMA to influence and lobby the outcome in the interest of the shareholders. Further, KenGen is represented in the Working Group

One Committee of the Capital Markets Master Plan (CMMP) which was officially launched in November 2014. The CMMP is a 10-year strategic blue print for the Kenyan capital markets for which the four formally constituted Working Groups are to provide the operational implementation path for actualization of long term financial and economic goals as set out in the national development plan.

### Board Charter

The Board Charter guides the Board in the exercise of its responsibilities by providing a concise overview of:

- The separation of the roles, functions, responsibilities and powers of the Board and individual directors;
- Powers delegated to the board committees of the Company;
- Matters reserved for final decision-making by the Board; and
- Policies and practices of the board on matters of corporate governance, directors declarations and conflicts of interest, conduct of board meetings and procedures, and the nomination, appointment, induction, training and evaluation of members of the Board.

The Charter does not in any way purport to replace or supersede any laws and regulations that govern the Company.

### Board Composition

The KenGen Board is made of eleven (11) members made up of a non-executive and independent Chairman, one executive Managing Director & CEO, the Cabinet Secretary-National Treasury, Principal Secretary-Ministry of Energy & Petroleum, plus seven independent and non-executive directors. The composition of the Board is as outlined in the Articles of Association of the Company.

During the last Annual General Meeting and as per the Articles of Association of the Company on Rotation of Directors; three Board members retired and two directors did not offer themselves for re-election. As a result, two new independent and non-executive directors were elected by the shareholders to join the KenGen Board.

## Board Diversity

The Board has the following diverse set of skills:

Field of Expertise	Numbers
Economics	3
Finance	2
Engineering	2
Geology	1
Supply Chain	1
Business Management	3
Law	1

KenGen continues to comply with the 1/3 gender balance parity as outlined below:



The biographies of the Directors are published on page 26 - 29.

## Board Effectiveness

### Separation of Powers & Duties of the Chairman and Managing Director & CEO

The separation of the functions of the Chairman and the Managing Director & CEO ensures the independence of the Board and Management. The requisite balance of power, increased accountability, clear definition of responsibilities and improved decision making is attained through this distinction between the non-executive and executive roles.

### Role of the Board

The Board offers strategic guidance, leadership and control of the Company by defining its strategic intent, its objectives and values; reviews this strategic direction and adopts business plans proposed by Management. With retention of full and effective control over the Company. The Board monitors Management's implementation of the plans and strategies, ensures ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles, corporate policies & procedures and the Code of Ethics.

It evaluates performance of Management against targets and objectives and benchmarks performance of the Company against best international practices. The Board considers and approves the Company's overall budget and specific proposals for capital expenditure & acquisitions plus strategic opportunities. It reviews succession planning for the management team and approves senior executive appointments, organisational changes and remuneration.

The Board constitutes and reviews composition of Board Committees and approves reports and performance of each Board Committee. It further approves the quarterly, interim and preliminary financial statements, annual report & accounts, quarterly management accounts and operational report from the Managing Director & CEO and public announcements of a material nature.

### Directors Responsibilities

The Articles of Association of the Company and the Board Charter enumerates the responsibilities of the directors. Execution of the mandate of the Board requires each director to observe a code of conduct aligned to their duties and responsibilities to the Company and shareholders, and act within limitations as defined in the Charter while in observing to the principles of good corporate governance.

Each director subscribes to uphold and promote effective and responsible use of Company resources and undertakes to act in good faith, with care and prudence in the best interest of the Company while exercising his/her power and executing his/her duties. The Directors are expected to familiarise themselves with the relevant regulations and statutes, the Memorandum and Articles of Association of the Company, the Board's operating norms and procedures, and any other requirements necessary for the discharge of their duties.

Further, the directors commit that, while taking into account the financial impact of their decisions, shall consider the consequences for sustainable development, effect on relations with stakeholders and interest of the society in general. Directors are expected to be fully aware that they are individually and collectively responsible for deciding the Company's vision, mission and values, its strategic objectives, ensuring the establishment of the organisational structure, putting in place policies to achieve the objectives as well as ensuring effective control over the Company, and accounting to shareholders.

# Corporate Governance Statement

## Board Effectiveness

The Board has an elaborate program based on good governance practice to ensure development of the Board members in various facets in order to strengthen oversight role and promote Board effectiveness

Upon appointment to the Board, new directors embark on a detailed programme to familiarize themselves with the Company's business and operating environment. Literature is provided and meetings arranged with senior management team. Visits to power stations are also organised. During the year, the new directors undertook this program

Induction

During the year, the directors undertook various training and development programs in risk management, relevant energy conferences and forums to ensure they update their skills and knowledge as well as keep abreast of developments in corporate governance. Biannually the members of the Board attend the specialised '5-day Corporate Governance Training for Directors' offered by the Centre for Corporate Governance, Kenya

Continuous Professional Development

The Board conducts an annual evaluation of the Board as an entity, its committees and each individual Director to gauge performance. This is done by an independent consultant

Board Evaluation

## Board Meetings

The Board meets at least once quarter or more often in accordance with requirements of the business.

The Board work plan and calendar of meetings is prepared in advance. Adequate notice is given for each board meeting, the agenda and papers are circulated in good time.

The Board was reconstituted in January 2015 when two (2) new members were appointed at the AGM.

The Board held 10 meetings which were attended as follows:



No.	Name	Attendance
1.	Joshua Choge	9
2.	Albert Mugo	10
3.	Henry Rotich	6
4.	Joseph Njoroge	4
5.	Dorcas Kombo	10
6.	Hedrick Omanwa	10
7.	Henry M'Narobi	9
8.	Ziporah Ndegwa	9
9.	Millicent Omanga	8
10.	Musa Arusei	5 (Appointed in December 2014)
11.	Kairu Bachia	5 (Appointed in December 2014)

(Sarah Wainaina and George Njagi attended meetings until 16th December 2014 when they retired from the Company.)

## Individual Directors Shareholding

No member of the Board holds shares in his or her personal capacity that exceeds 1% of the total shareholding of the Company. The breakdown of the Directors personal shareholding in the Company as at 30th June 2015 is as follows:



Name	No. Of Shares	% Holding
Joshua Choge	-	-
Albert Mugo	184,831.00	0.0001
Henry Rotich	-	-
Joseph Njoroge	-	-
Dorcas Kombo	-	-
Hedric Omwanwa	6,431.00	0.0000
Henry M'Narobi	123,500.00	0.0001
Zipporah Ndegwa	-	-
Millicent Omanga	-	-
Humphrey Muhu	812.00	0.0000
John Omenge	-	-
Musa Arusei	-	-
Kairu Bachia	60,600.00	0.0000
	<b>376,174.00</b>	<b>0.0002</b>

## Directors Remuneration

In accordance with the guidelines provided in the State Corporations Act and the shareholder approval granted at the Annual General Meeting, the Directors are paid annual fees, taxable sitting allowance for every meeting attended, as well as travel and accommodation allowance while on Company duty. The Chairman is paid a monthly honorarium. KenGen does not grant personal loans or guarantees to its directors. It is proposed that each director receives fees of Shs 600,000 per annum for the financial year ended 30 June 2015. The amount paid to the non-executive directors is as below:

	2015 Shs'000	2014 Shs'000
Fees	6,000	6,000
Other emoluments	14,804	14,818
	<b>20,804</b>	<b>20,818</b>

No loans were granted to any non-executive director.

## Declaration of Interest and Conflict of Interest

The directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to his/her attention, whether direct or indirect. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company has been

observed by the Board. All business transactions with all parties, directors or their related parties are carried out at arms' length.

An acknowledgement that should it come to the attention of a director that a matter concerning the Company may result in a conflict of interest, obligates the Director to declare the same and exclude himself/herself from any discussion or decision over the matter in question.

At every meeting of the Board, an agenda item exists which requires members to make a declaration of any interest they may have in the business under discussion.

Business transactions with the directors or their related parties are disclosed on page 153.

All the Board committees including the Audit & Risk Management committee, are established with written terms of reference detailing their mandate, authority and duties.

The appointment of new members to the Board at the last Annual General Meeting resulted in the reconstitution of the membership of the Committees in January 2015. The Company Secretary who is a member of the Institute of Certified Secretaries of Kenya (ICPSK), is the Secretary to all the committees.

## Corporate Governance Statement

### Report from the Chairperson of the Audit & Risk Management Committee



**Hedrick Omanwa**

#### Mandate

The Audit & Risk Management Committee's duties are based on six broad functions namely the Internal Control, Risk Management and compliance, financial reporting, internal audit, external audit, compliance with laws and regulations; and compliance with the Company's Code of Conduct and ethical guidelines.

The Committee assesses effectiveness of the Company's internal control and risk management and compliance framework. It reviews the impact of significant accounting and reporting issues such as professional and regulatory pronouncements; meets the management and both external & internal auditors to review the financial statements and results of the audit process; and assesses if generally accepted accounting principles have been consistently applied in the preparation of preliminary announcements & interim financial statements.

The Committee is responsible for the internal audit & risk management function by ensuring management acts on audit and risk management reports; reviews the performance and considers the independence of the external auditors; and confirms that all regulatory compliance is considered in the preparation of financial statements; and its meetings and invites a representative of the External auditors when reviewing the audited results.

#### Membership

Its membership comprises of four independent and non-executive directors.

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

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

It also invites a representative of the external auditors when reviewing the audited results.

#### Attendance

The Committee held 10 meetings which were attended as follows:

	Name	Attendance	
		July – Dec 2014	Jan – Jun 2015
1.	Henry M'Narobi		10
2.	Humphrey Muhu (Alternate to Henry Rotich)		7
3.	Dorcas Kombo		10
4.	Millicent Omanga		10
5.	Kairu Bachia	*	3 (Appointed in January 2015)

*(Henry M'Narobi was a member of the Committee until January 2015)*

*\* Member not in the committee of the Board*



## Report from the Chairperson of the Strategy Committee



**Henry M’Narobi**

### Mandate

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

### Membership

Its membership consists of four non-executive directors.

### Attendance

The Committee held 7 meetings which were attended as follows:

	Name	Attendance	
		July – Dec 2014	Jan – Jun 2015
1.	Henry M’Narobi		7
2.	Humphrey Muhu (Alternate to Henry Rotich)		5
3.	Ziporah Ndegwa		7
4.	Albert Mugo		7
5.	Hedrick Omanwa	*	3 (Appointed in January 2015)

*(The PS-Energy & Petroleum was a member of the Committee until January 2015)*

*\* Member not in the committee of the Board*

## Corporate Governance Statement

### Report from the Chairperson of the Human Resource Committee

**Dorcas Kombo**

#### Mandate

The Committee monitors the policies and practices of KenGen in relation to human resources, offers advice and recommendations on the Company's human resource strategies, initiatives and policies; and the nomination and remuneration of directors and senior management.

The Committee's duties are based on three broad functions namely the human resources, nominating and remuneration.



#### Human Resources function

The Committee continually reviews the organizational structure, core functions and optimum establishment; policies and procedures on staff recruitment and selection, staff training and development for operational efficiency, performance and reward system and capacity enhancement and reviews the terms and conditions of service in line with organisational strategy. Further, it reviews the Company's human resource policies and recommend amendments to the Board for approval.

#### Nominating function

The Committee supports and advises the Board on the appropriate size and composition that will enable it discharge its responsibilities, transparent procedure for selecting new directors for appointment and re-selection to the Board; evaluation of the performance of the Board, the various committees and individual directors.

#### Remuneration function

The Committee reviews the Company's remuneration, recruitment, retention, incentive and termination policies and procedures for executive directors and senior managers; their basic salary & the criteria for payment of bonuses to all staff and monitor its operation, considers any recommendations of the chairman or Managing Director/CEO of the Company regarding payment of bonuses or performance related remuneration.

#### Membership

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

#### Attendance

The Committee held 9 meetings which were attended as follows:

	Name	Attendance	
		July – Dec 2014	Jan – Jun 2015
1.	Dorcas Kombo		9
2.	Momata Gichana (Alternate to Joseph Njoroge)		3
3.	Albert Mugo		9
4.	Henry M'Narobi		9
5.	Musa Arusei	*	4 (Appointed in January 2015)

(Sarah Wainaina was a member of the Committee until January 2015)

\* Member not in the committee of the Board

## Report from the Chairperson of the Procurement Oversight Committee



### Ziporah Ndegwa

#### Mandate

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

### Membership

Its membership consists of four non-executive directors.

### Attendance

The Committee meets once a month or as when strategic procurement need to be reviewed.

The Committee held 12 meetings which were attended as follows:

	Name	Attendance	
		July – Dec 2014	Jan – Jun 2015
1.	Ziporah Ndegwa	*	8 (Appointed in January 2015)
2.	Joshua Choge		11
3.	Millicent Omanga		12
4.	Albert Mugo		12
5.	Henry M'Narobi	*	7 (Appointed in January 2015)

*(Sarah Wainaina and George Njagi were members of the Committee until January 2015)*

\* Member not in the committee of the Board

## Corporate Governance Statement

### Report from the Chairperson of the Financial Advisory Committee

**Musa Arusei**

#### Mandate

The Committee was established to oversee the activities of the Financial Arranger and Advisor in particular, and adherence to the terms of reference of the contract signed with KenGen

Further, the Committee oversees the implementation of the overall investment plan for the PIBO funds, as per the Information Memorandum, Ministerial approvals and asset allocation for cash and cash equivalents with respect to fixed-income securities and equities. It reviews management's short-term investment recommendations, including permissible types of investments, with respect to uncommitted PIBO funds and advises as necessary.



The Committee meets on a quarterly basis or at such times as required by the business and reviews the investment performance of the PIBO funds to ensure adequate and competitive returns. It reviews at least semi-annually the repayment of the PIBO funds to ensure the fulfilment of repayment obligations, adequacy of cash flow and any other factors that may be necessary to monitor. It also monitors on a quarterly basis the Company's key financial ratios and any other issues relevant to the PIBO Fund.

#### Membership

Its membership consists of four non-executive directors.

#### Attendance

The Committee held 4 meetings which were attended as follows:

	Name	Attendance	
		July – Dec 2014	Jan – Jun 2015
1.	Musa Arusei	*	2 (Appointed in January 2015)
2.	Humphrey Muhi (Alternate to Henry Rotich)		4
3.	Albert Mugo		4
4.	Momata Gichana (Alternate to Joseph Njoroge)	*	1 (Appointed in January 2015)
5.	Kairu Bachia	*	2 (Appointed in January 2015)

*(Ziporah Ndegwa and Hedrick Omanwa were members of the Committee until January 2015)*

*\* Member not in the committee of the Board*

## Executive Management Committee (EXCO)

The Managing Director & CEO and all the divisional directors make up the EXCO. This Committee serves as a link between the Board and Management. EXCO's mandate and responsibility is ensuring compliance with the statutory and regulatory framework, and guidelines and adherence to Company policy and procedures. Its meetings are convened on a weekly basis to discuss strategy formulation and implementation, policy matters and financial performance.

## Internal Controls & Risk Management

The risk management agenda of the Company is a critical responsibility for the Board. The Company's comprehensive system of internal financial control ensures that adequate systems are maintained. Effective internal control systems to assess and mitigate any risks to which the Company may be exposed to, for effective internal financial management have been operationalised.

The Company's policy on the risk management framework which identifies, measures and manages risks has been put in place by the Board and integrated in the overall management reporting structure. These risks are further demarcated onto the Strategic Corporate Risk Matrix which is closely monitored by the Board. The Audit & Risk Management Committee of the Board regularly reviews the effectiveness of the internal control system. The Head of the Internal Audit & Risk Management Department reports directly to the Board's Audit & Risk Management Committee.

## Ethics and Code of Conduct

Corporate governance is engrained as a valuable contributor to the long-term success of the Company through the creation of the right culture throughout. The core values of integrity, professionalism, team spirit and emphasis on safety culture steer our Company's organizational health and decision-making processes. Owing to the dynamic business environment, The Company periodically conducts culture baseline survey in view of the dynamic business environment so as to review and improve the existing culture in the organisation.

The Company conducts its business in compliance with relevant legal principles and high ethical standards of business practice. The Board, Management and employees are required to observe the code and high standards of

integrity. Further, these standards are applied in all dealings with customers, suppliers and other stakeholders.



## Going Concern

The Board confirms that the Company has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing financial statements.

## Engagement with Shareholders

In the endeavour to actively engage with shareholders, KenGen strives to provide regular and timely information. The interim and annual results are always published in the local daily newspapers. In accordance with Article 137 of the Articles of Association of the Company, the Annual Report & Accounts is posted on our website; [www.kengen.co.ke](http://www.kengen.co.ke) at least 21 days before the Annual General Meeting (AGM) to ensure that all the shareholders are well informed. Further, the Company's website offers a platform for shareholders to quickly access corporate information.

All directors attended the last AGM held on 16 December 2014 and were available to answer questions from shareholders.

## Shareholding

In line with the continuing obligations for listed companies as prescribed by the Capital Markets Authority and Nairobi Securities Exchange, KenGen files, investors' returns on a monthly basis.

## Shareholding

### LIST OF TEN LARGEST SHAREHOLDERS AS AT 30 JUNE 2015

	No. of Shares	%
1. Cabinet Secretary-The National Treasury	1,538,853,019	70.00
2. Coop Custody A/C 4018	12,140,000	0.55
3. Standard Chartered Nominees Limited A/C 9230	8,824,000	0.40
4. Chase Bank (Kenya) Limited	8,145,755	0.37
5. Kenya Commercial Bank Limited A/C 915B	8,086,825	0.37
6. CfC Stanbic Nominees Ltd A/C NR1030682	7,634,600	0.35
7. Standard Chartered Nominees Limited A/C 9098AC	7,603,931	0.35
8. Standard Chartered Nominees Limited A/C KEI 1401	6,154,655	0.28
9. Standard Chartered Nominees Limited A/C KEI 1450	6,154,654	0.28
10. CfC Stanbic Nominees Ltd A/C 57601	5,950,963	0.27
192,793 other shareholders	1,609,548,402	73.22
	588,813,054	26.78
<b>Total</b>	<b>2,198,361,456</b>	<b>100.00</b>

### DISTRIBUTION OF SHAREHOLDERS

Range	No. of Shareholders	Shares	% Shareholding
1 – 500	88,501	22,384,561	1.02
501 - 1,000	39,827	31,747,227	1.44
1,001 - 5,000	43,647	93,107,902	4.24
5,001 - 10,000	16,673	109,613,597	4.99
10,001 - 50,000	3,331	65,946,129	3.00
50,001 - 100,000	390	27,557,026	1.25
100,001 - 500,000	305	68,444,012	3.11
500,001 - 1,000,000	55	40,715,241	1.85
Above 1,000,000	74	1,738,845,761	79.10
<b>Total</b>	<b>192,803</b>	<b>2,198,361,456</b>	<b>100.00</b>

### INVESTOR POOLS

	No. of Shareholders	Shares	% Shareholding
Local Institutions	8,223	1,782,423,101	81.08
Local Individuals	183,593	378,035,676	17.20
Foreign Investors	987	37,902,679	1.72
<b>Total</b>	<b>192,803</b>	<b>2,198,361,456</b>	<b>100.00</b>

# REVIEW OF OUR PERFORMANCE

A close-up photograph of a welder wearing a blue hard hat and safety glasses, focused on his work. He is welding a metal structure, and a large amount of bright, glowing sparks is being produced, creating a dramatic and industrial scene. The background is dark, making the sparks and the welder's face stand out.

The amount of Energy required to meet the country's annual steel production target is significant. New targets if achieved could lead to an increase in the per capita iron and steel consumption. Steel is the cornerstone and key driver of the world's economy. Steel is everywhere in our lives. It is a very unique material that has a special combination of strength, formability and versatility.

# Review of Our Performance

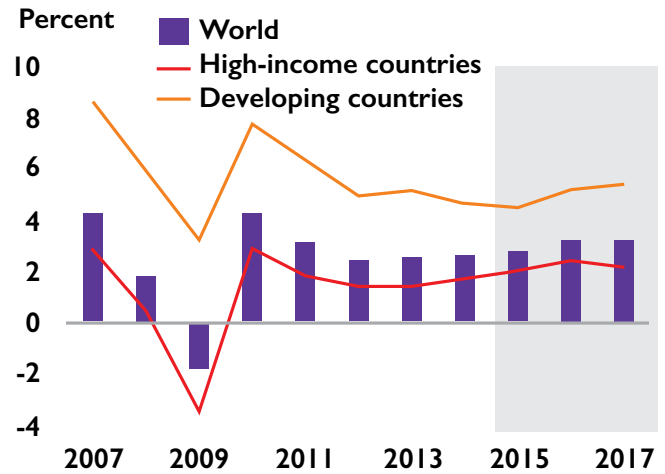
## Outlook on Business Environment

### Macro Environment

#### (a) Global Environment

The world economy is projected to grow by 3.5% in 2015 buoyed by strong growth in advanced economies mainly as a result of the low oil prices. However, growth in emerging and developing countries remains subdued on account of weak growth in some major oil exporters because of lower oil prices.

In Kenya, the big fall in crude oil prices has resulted in savings not only in petroleum products, but also products that rely on fuel inputs.



World Bank June 2015

#### (b) Sub-Sahara Africa

According to the International Monetary Fund (IMF), Growth in Sub-Saharan Africa has weakened markedly, and is now expected at 3.75 percent in 2015 and 4.25 percent in 2016, from 5 percent in 2014. Of the three factors that have underpinned the region’s solid performance for the last decade or so; a much improved business and macroeconomic environment, high commodity prices, and highly accommodative global financial conditions.

#### (c) Kenya

The Kenyan economy remains strong and its momentum is gaining pace. The economy is expected to expand further by between 6.5 – 7.0% in 2015 and to maintain the same pace over the medium term, bolstered by lower oil prices, higher public and private investment, increased consumer confidence and high total factor productivity reflecting continued implementation of structural reforms and increased investment in health and education.

Central Bank of Kenya raised its key interest rate to 10% on July 7 2015. This rate denotes elevated risks to the inflation outlook mainly attributed to pressures on the exchange rate over the last few months.

The exchange rate of the Kenya Shilling against the US Dollar remained under pressure largely reflecting a stronger US Dollar in the global currency market and sustained high demand for foreign exchange in April, May and June 2015.

However, the exchange rate has stabilised in response to the active monetary policy leading to the tight liquidity conditions in the interbank market.



The Managing Director & CEO, Eng. Albert Mugo explains the mechanics of the 280 MW Olkaria Geothermal Project to H.E. President Uhuru Kenyatta and H.E. President Paul Kagame of Rwanda as they graced the exhibition area during the Launch.



### (d) Key Economic Sectors

#### Manufacturing

The manufacturing sector real output increased by 3.4 per cent in 2014 compared to a growth of 5.6 per cent in 2013. Modest inflation, coupled with reduced oil prices in the second half of the year partly contributed to this growth. The quantum index rose by 4.5 per cent in 2014. The sub-sectors that recorded growths of above 10 per cent were animal feeds, tobacco products, pharmaceutical products, other non-metallic mineral products, fabricated metal products, manufacture of furniture and other manufacturing not elsewhere classified.

The Export Processing Zone (EPZ) programme recorded improved performance in 2014. However, the number of operating enterprises, domestic sales and cumulative investments in this programme reduced. The value of export of articles of apparel to USA, under the African Growth and Opportunity Act (AGOA), increased by 24.2 per cent to Shs 30.1 billion in 2014.

Formal employment in the manufacturing sector increased by 2.9 per cent to 287.5 thousand persons in 2014. Some activities which had high increases in employment were manufacturing of pharmaceutical products, paints and varnishes, animal feeds and dairy products. In 2014, compensation of employees in the sector increased by 11.2 per cent to Shs 141.5 billion. The total value of manufacturing projects approved by financial institutions rose by 30.3 per cent to Shs 237.9 billion in 2014.



## Review of Our Performance

### Infrastructure

#### Iron & Steel Smelting Industry

The amount of energy required to meet the country's annual steel production target is significant. New targets if achieved, could lead to an increase in the per capita iron and steel consumption. Steel is a key driver of the world's economy. Steel is everywhere in our lives. It is a very unique material that has a special combination of strength, formability and versatility. Steel is recyclable.

#### Standard Gauge Rail

The governments of Kenya, Uganda, Rwanda and South Sudan are committed to providing high capacity, cost-effective railway transport within the Northern Corridor. This will be achieved through the construction of a standard gauge railway (SGR) connecting Mombasa to Kampala, Kigali and later to Juba from Tororo.

The Railway line will have a uniform design which will permit seamless operation across the borders and in turn reduce costs. The railway development will include upgrading and modernisation of railway training institutes in Nairobi and Tororo to provide local manpower for the construction and operation of the railways.

#### ICT Parks

The National ICT Masterplan 2014-2017 has various objectives, with the key being: 8% ICT contribution to GDP; ICT being classified as a standalone economic sector by 2016 and creation of 180,000 direct jobs. Establishment of ICT parks is one of the initiatives.

#### LAPSSET

The Lamu Port-South Sudan-Ethiopia Transport Corridor Project is expected to have the following benefits:

- (a) Foster transport linkage between Kenya, South Sudan and Ethiopia;
- (b) Dynamic promotion of regional socio-economic development along the transport corridor especially in the Northern, Eastern, North-Eastern and Coastal parts of Kenya;
- (c) Cover about half of the country with a planned investment resource that is material in relation to the country GDP, which therefore when achieved, has the potential to contribute notably to GDP growth.

Large quantities of local inputs such as steel, cement,

aggregates, electricity generation and transmission pylons and cables, roofing materials, glass, etc. will be required from local industries with potential to create at least 10,000 jobs. Service and hospitality industry: estimated 3,000 jobs to provide food, accommodation and leisure.

### Micro-Environment

#### Energy Sector Outlook

##### Petroleum

**Import bill:** The import bill during the period reduced significantly due to falling global oil prices. KenGen, being a major consumer of fuel for generation, recorded reduced volumes owing to the reduced thermal generation as a result of replacement by geothermal production. Hence the fuel spend reduced from Shs 12,870 million in 2014 to Shs 7,129 million in 2015.

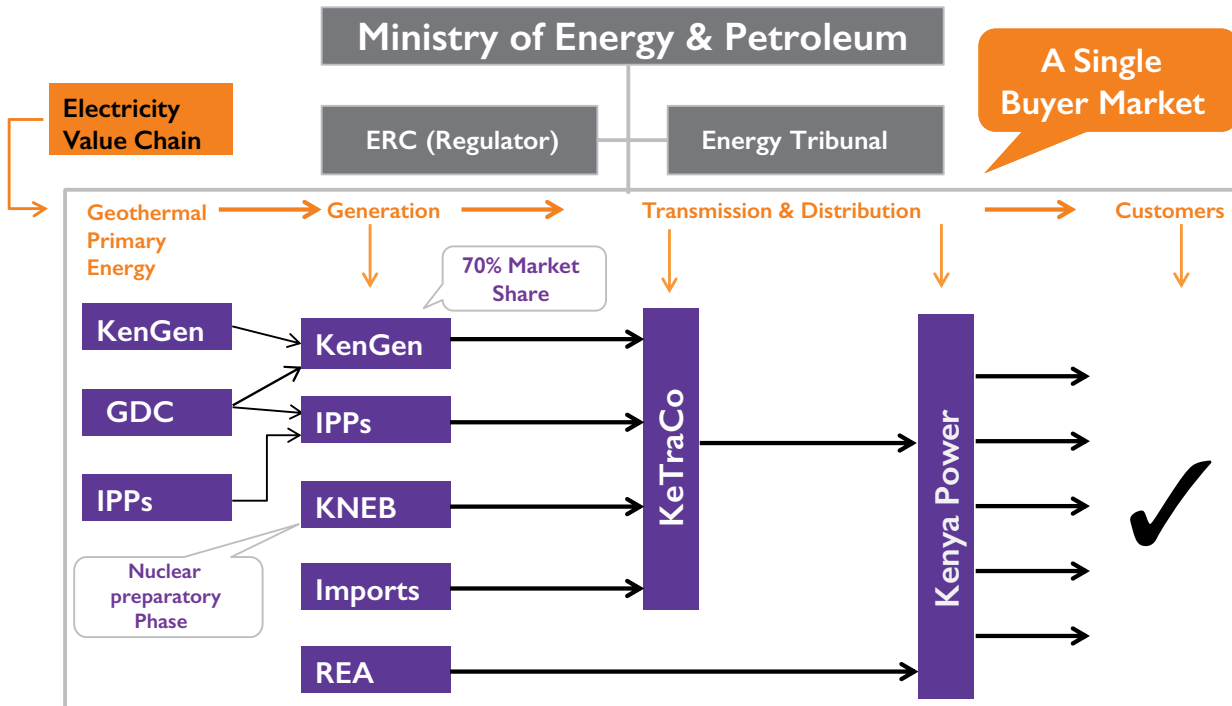
**Oil exploration:** A cumulative volume of 30,000 barrels of oil has been produced. Appraisal work to date strongly underpin the expected average gross resource estimate of 600 million barrels, an indication that Kenya is poised to reap big on account of large oil resource that will further spur economic growth.



Aerial view of the Kipevu III Power Plant. KenGen produces 15% of its generation portfolio from diesel engines.

## Kenya Energy Sector Overview

### Key Players



## Electricity Transmission and Distribution

The recommended system reinforcement involves: completion of the Suswa-Ngong 220kv line by the end of 2015, implementation of proposed reactive power compensation projects in Western Kenya by the end of 2015, looping in looping out (LILLO) the second circuit of Makutano-Lanet line to alleviate overload between Soilo and Lanet by 2016, uprating of transformers at Rabai from 2x90MVA to 2x200MVA by 2018, installation of a 50MVAR reactor at Ortum to resolve overvoltage problems in the North Rift and the installation of 150MVAR reactors in Silali 220Kv bus to bring down voltages to acceptable limits by 2019.

The World Bank Group will contribute about US\$457 million towards electricity modernization project. These funds will be channeled to implementing agencies.

During the 2015/16 budget reading, the government allocated Shs 14.9 billion to rural electrification program, up from the Shs 10 billion last year; Shs 13.2 billion to further geothermal power development; Shs 21.1 billion for power transmission; Shs 4.5 billion for street lighting; and Shs 1.5 billion for the last mile connectivity. These

commitments are an indication that focus is on achieving the 70% electricity access target by the year 2020. This calls for faster growth in electricity generation.



Kamburu Power Dam and transmission station at the Eastern Hydropower business area. Hydro is still a key component of the Company's generation mix.

# Review of Our Performance

## Generation Capacity Commitments

In the medium term, electricity demand is estimated at 2,864MW by 2020 from 1,512MW in June, 2015, with an estimated yearly growth of approximately 11%. The main drivers for this demand will be growth in population, urbanization and GDP growth that will spark investment in the energy sector to meet growing demand. The anticipated electrification of rail lines and the establishment of new economic zones and new urban centers resulting from county investments using devolved funds and the implementation of the universal access to electricity in the country will spur further demand for power.

Kenya's installed interconnected generation capacity stands at 2,320MW and off-grid capacity at 26MW; KenGen provide 70% and Independent Power Producers (IPPs) 30% of the interconnected capacity. In the medium term it is expected that renewable energy sources coming into the grid will continue to displace the expensive diesel power, further reducing the cost of energy.

The Government of Kenya (GoK) targets 5000+MW in the medium-term. With the unbundling of the energy sector, competition in the generation sector has increased over the years but Kengen has continued to lead the way.

## Power Demand and Electricity Sales

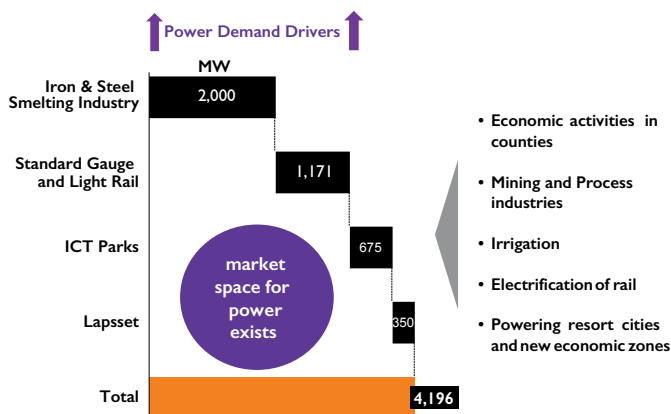
The commercial/industrial sales depend highly on the performance of the manufacturing sector and large commercial establishments. The relatively small number of

customers in this category accounts for about 57% of total electricity sales. The positive growth in the manufacturing sector led to increased electricity sales in 2014/15. The domestic customer category recorded a positive growth in energy sales in the same year. The narrowing gap between the domestic and off-peak tariffs has led to reduction in the number of customers in the off-peak category.

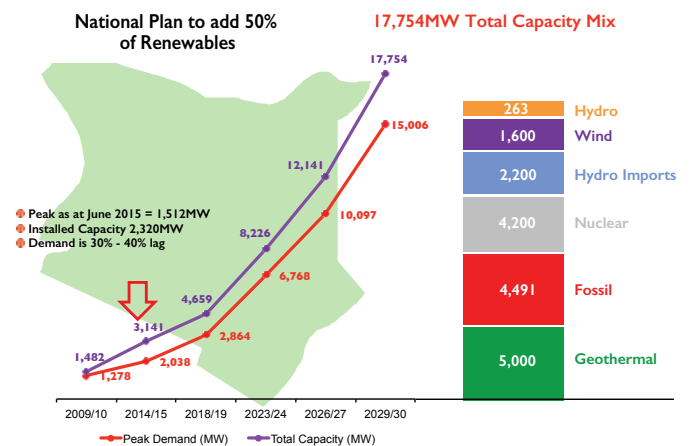
In Kenya, electricity is supplied to about 37% of the total population. This is predominantly middle and upper income groups. The utility's strategy to connect more customers to enhance sales growth is currently under implementation. Strategies to enhance customer growth, energy sales and revenue through proactive marketing and speeding up of customer creation process are now under full implementation. Generally, the long-term commercial sales growth will be driven by the expansion of the economy and factors including:

- A growing population, which increases the demand for most general services using electricity
- Increases in electric demand, a result of greater use of electronic and information end use technologies.
- Continued growth in the manufacturing, agricultural and other sectors of the economy
- Kenya Power's initiative to connect new customers.

## Demand Graph



## Projected National Power Demand



## Resource Management

### Hydrology

#### Rainfall Performance

In Eastern hydros, Mescos, Wanji, Kamburu, Kindaruma and Kiambere stations recorded above normal rainfall, while Tana and Gitaru stations recorded near normal rainfall. Sagana and Masinga recorded below normal rainfall.

In Western hydros, Turkwel and Gogo stations recorded above normal rainfall while Sosiani recorded near normal rainfall. The results are shown in the table below;

#### Rainfall Received

Rainfall received	Stations	Key
AN	Mescos, Wanji, Kamburu, Kindaruma, Kiambere, Turkwel, & Gogo	AN = Above normal (> 125% of Long Term Average)
NN	Tana, Gitaru & Sosiani	NN = Near Normal (75% - 125% of Long Term Average)
BN	Sagana, Masinga,	BN = Below normal (< 75% of Long Term Average)

	Storage Level (m)	Live Storage Energy (GWh)
	30th June 2015	30th June 2015
Masinga	1,054.14	101.12
Kamburu	1,005.55	17.77
Kiambere	697.88	127.26
Turkwel	1,123.75	308.05

#### Storage Energy (GWh)

The low rainfall is mitigated by storage in Masinga, Kiambere, Turkwel and Kamburu Dams. The gross storage energy in the 7-Forks cascade plus Turkwel was 1,662 GWh on 30 June 2015

#### Inflow Projection for April 2015

Masinga and Turkwel reservoirs are projected to receive above normal inflows in July 2015.

#### Storage Hydro Production

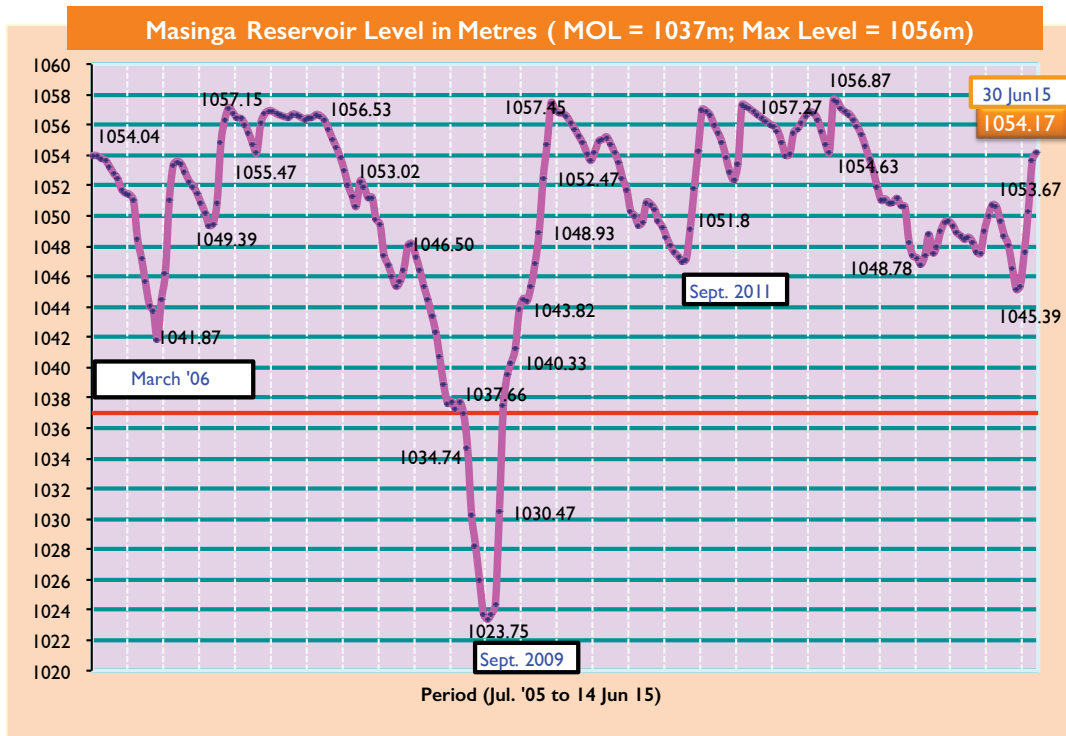
As at June 2015, an average of 9.25 GWh/day was generated from the major hydro stations, against a projection of 9.12 GWh/day.



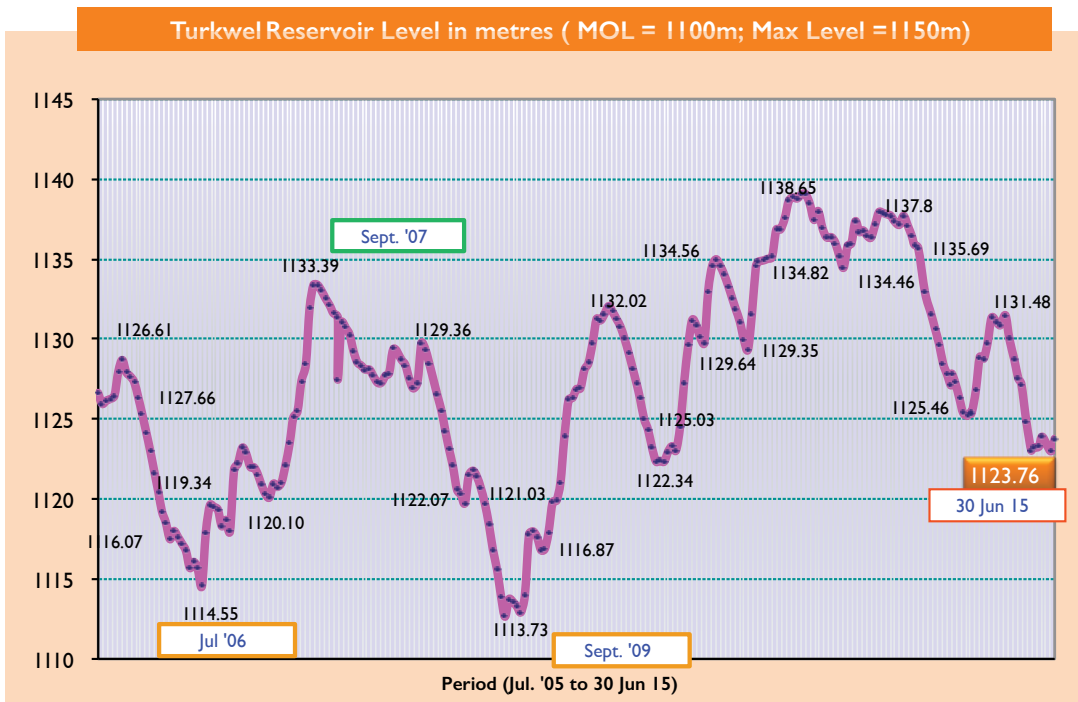
Masinga Power Station in the 7 Forks Cascade. It holds approximately 2 billion litres of water making it KenGen's largest dam in the Eastern Hydros area

# Review of Our Performance

## Masinga Reservoir Performance (Last 10 Years)



## Turkwel Reservoir Performance (Last 10 Years)



## Government of Kenya Performance Contract Report 2015

The Government of Kenya is committed to clearly defining the working relationship between itself and the state corporations. KenGen has a signed performance contract with the Government.

The performance contract aims to establish clarity and consensus about priorities for the corporation's management in order to:

- i. Ensure that systems are established to ensure equality of all users of public services is achieved;
- ii. Ensure impartiality and fairness in the process of delivery of public services;
- iii. Promotions national cohesion and national values;
- iv. Ensure continuity of public services under all circumstances;
- v. Establish systems to enable innovativeness and adaptability of public services to the needs of users;
- vi. Ensure professionalism and ethics in public service is achieved and maintained;
- vii. Establish systems to ensure promotion and protection of rights of users of public services and public servants as enshrined in the Bill of Rights;

- viii. Institutionalize a culture of accountability, integrity, transparency and promotion of values and principles of public service;
- ix. Ensure a corruption free public service;
- x. Ensure effective, efficient and responsible use of public resources; and
- xi. Ensure responsiveness by public servants in the delivery of public services.

Enhance transparency in the management of public resources and accountability for results is in line with the Constitution.

Each year, in consultation with the government, we agree on our performance objectives, measures and indicators, as well as our annual targets.

The table that follows sets out our performance for the year ended 30 June 2015 in terms of the performance contract.

Commentary on performance is contained in the subsequent section. Throughout the performance section report, unless otherwise indicated, performance is against target;

During the year the Company achieved a " Good" Status, detailed as follows:

Section	Indicator name	Unit	Weight	Target	Achievement	% change	Raw score	Weighted score	Remarks
<b>A Financial &amp; Stewardship</b>									
A03	Pre-tax profit	Shs'm	20	4,244	8,690	102.73	1	0.2	Excellent
A04	Return on Investment	%	10	1.87	3.40	81.82	1.369	0.1369	Excellent
A05	Dividend to GOK	Shs'm	5	500	1,000	100	3	0.15	Very Good
<b>Weighted sub total</b>			<b>35</b>					<b>0.4869</b>	
<b>B Service Delivery</b>									
B01	Customer satisfaction	Report	3	1	1	0	3	0.09	Very Good
B02	Service delivery Innovations	%	2	100	90	-10	3.2	0.064	Good
B03	Resolution of public complaints	%	4	100	70	-30	3.6	0.144	Good
B04	ISO certification	%	3	100	100	0	3	0.09	Very Good
B05	Automation	%	2	100	89	-11	3.22	0.0966	Good
<b>Weighted sub total</b>			<b>15</b>					<b>0.4846</b>	

## Review of Our Performance

Section	Indicator name	Unit	Weight	Target	Achievement	% change	Raw score	Weighted score	Remarks
<b>C</b>	<b>Non-Financial</b>								
C01	Asset Management	%	2	100	80	-20	3.4	0.068	Good
C02	Youth Internships/Industrial attachments/Apprenticeships	Number	2	600	1,203	100.5	1	0.02	Excellent
C03	Youth, women and persons with disabilities Empowerment	Shs'm	3	530.6	464.14	-12.53	3.2505	0.0975	Good
C04	Compliance with Constitutional and other Statutory obligations	%	3	100	80	-20	3.4	0.102	Good
	<b>Weighted sub total</b>		<b>10</b>					<b>0.2875</b>	
<b>D</b>	<b>Operations</b>								
D1978	Cost efficiency	%	3	100	95	-5	3.1	0.093	Good
D1979	Completion rate	%	3	100	99	-1	3.02	0.0906	Good
D1981	Olkaria I % IV 280MW & 560MW projects	MW	10	260.4	255.4	-1.92	3.0384	0.3038	Good
D1987	Capacity availability-hydro	%	4	82	98.37	19.96	2.6007	0.104	Very Good
D1988	Capacity availability -geothermal	%	4	85	98.02	15.32	2.6936	0.1077	Very Good
D1989	Capacity availability-Gas turbine	%	1	80	92.63	15.79	2.6843	0.0268	Very Good
D1990	Capacity availability-Diesel plants	%	2	80	88.41	10.51	2.7898	0.0558	Very Good
D1991	Capacity availability-off grid plants	%	1	80	90.03	10.51	2.7898	0.0558	Very Good
D1992	Ease of doing business	%	2	100	100	12.54	2.7493	0.0275	Very Good
	<b>Weighted sub total</b>		<b>30</b>					<b>0.8692</b>	
<b>E</b>	<b>Dynamic/Qualitatives</b>								
E01	Human Resource Management and Development	%	5	100	83	-17	3.34	0.167	Good
	<b>Weighted sub total</b>		<b>5</b>					<b>0.167</b>	
<b>F</b>	<b>Corruption Eradication</b>								
F01	Corruption Eradication	%	5	100	90	-10	3.2	0.016	Good
	<b>Weighted sub total</b>		<b>5</b>					<b>0.016</b>	



## Review of Our Performance

We achieved strong ratings in the following areas:

### Finance & Stewardship

#### Pre-Tax Profit

Audited pre-tax profit is Shs 8,690 million against a target of Shs 4,244 million. While generation revenue was largely on target, reduced operational costs led to profit before tax surpassing the target.

#### Return on Investment

Return on investment was above target due to improved profitability and lower operating expenses and was also higher than the actual for the same period last year 3.40% (2014-3.13%) due to increased revenue. Actual ROI was 3.40% against a target of 1.87%.

#### Dividend to National Treasury

KenGen has an improved profitability recorded and will meet the target of paying Shs 500 million to the National Treasury. The proposed dividend payment to the shareholders for 2014/15 is Shs 1,429 million, of which 70% will be paid to the Government if approved in the AGM.

### Service Delivery Indicators

#### Customer Satisfaction

The Company carried out a baseline employee satisfaction / culture survey in quarter 2 in line with GoK requirements. The survey findings were received and disseminated to staff in all the business areas.

#### Service Delivery Innovations

The Board promoted business process re-engineering, aimed at improving service delivery by enhancing efficiency, timeliness, quality, flexibility and convenience. The Company embraced E-Communication to all bidders, service providers and job applicants and is in the process of implementing an efficient system. Roll-out of E-procurement to service providers is targeted for July 2015 in line with government directive.

### Resolution of Public Complaints

The Company carried out the following activities:

- i. Submitted information in the prescribed format to the Commission on Administrative Justices (CAJ) on complaints handling and management infrastructure (mechanism). Complaint boxes, dedicated telephone lines and e-mail address were used as a mechanism for the public to lodge complaints;
- ii. Implemented the Corporate service delivery charter;
- iii. Conducted capacity building for complaints-handling officers at Kenya School of Administration in the quarter;
- iv. Will create company-wide awareness on the existence of the complaints-handling mechanism following training of the complaints-handling officers;
- v. Kept records of actual resolution of public complaints received;
- vi. Submitted quarterly reports on the number, nature and action taken using the prescribed format by CAJ; and
- vii. Will ensure that a certificate is issued by CAJ indicating the score.

### ISO 9001:2008 Certification

KenGen complies with standards for maintaining the certification status and will provide a letter from the certifying body as testimony. KenGen, being in its third year of re-certification, undertook the following for continuity and relevance of the ISO:

- KenGen's QMS and EMS systems implementation continued during the year with implementation of the corrective actions for audit findings from the internal and the recertification audits carried out by our certification body Bureau Veritas Kenya, from 2nd to 5th June 2015;
- Re-certification of KenGen ISO management systems progressed with the review of the corporate procedures and manuals during the quarter while the documentation review was finalised in all the areas.

## Review of Our Performance

### Automation

In the reporting period, the Board supported developments in information and communication technology (ICT), aimed at achieving 100% of the following:

Automation Stages	Sub-Indicators
Institutional strategy and vision	Qualified ICT staff were deployed as per approved structure; 8% of Company R&M budget was earmarked for ICT
Connectivity and technology infrastructure	<ul style="list-style-type: none"> <li>• Internet bandwidth availed;</li> <li>• Ensure ICT infrastructure:               <ul style="list-style-type: none"> <li>- Office automation (turn-around time for business processes) automated as needed</li> <li>- Centralized user authentication done</li> <li>- Electronic Document Management System (EDMS) in use</li> <li>- LAN installed</li> <li>- WAN installed</li> <li>- Centralized user authentication within the LAN/WAN</li> </ul> </li> </ul>
Consumer and business adoption	<ul style="list-style-type: none"> <li>• On-line annual customer service rating of services (e-services) to ascertain feedback from recipients of service initiated;</li> <li>• Activation of service delivery channels utilizing SMS is in progress.</li> </ul>
Social and cultural environment	<ul style="list-style-type: none"> <li>• ICT training programs developed and submitted to HR as per ICT strategy</li> <li>• The target to train 20% of ICT staff in the year was met</li> </ul>
Legal Environment	<ul style="list-style-type: none"> <li>• Draft ICT policy exists and is being fine-tuned before all key staff sign</li> </ul>
Other factors	<ul style="list-style-type: none"> <li>• Analysis of interface between SAP and the PI (Plant Information) system commenced. User acceptance tests will be undertaken before adoption</li> </ul>

Status to date for Automation as at 30 June 2015 is 89%.

### Non-Financial Indicators

#### Asset Management

The Board ensured the best use of its equipment, machinery, tools, buildings etc in order to maximize taxpayers' value. This will include:

##### i) Inventory Management

The Company maintains a catalogue of assets and property.

##### ii) Maintenance

The Company has a well laid-out annual maintenance programme of all its plants. Periodic maintenance, various inspections and overhauls were carried out at most of the operation units. Adherence to this programme and prompt maintenance of all other assets ensured the Company complied with the target set. Scheduled maintenance was undertaken to ensure facilities were consistently available

for use and in good condition. Maintenance of vehicle, facilities and other assets is done with the aid of SAP system.

##### iii) Repairs

Repairs on power generation plants and other assets were done on time, ensuring the target was attained. Timely repair of company property was undertaken to ensure items were in good condition and used appropriately. SAP system is utilised to capture status of all work-orders.

##### iv) Disposal of Idle Assets

Disposal was done in full conformity with the Environmental Management Act, Public Procurement and Disposal Act other existing legal requirement. Activities undertaken include:

- Identification and preparation of a list of idle assets done quarterly;

- KenGen Disposal Committee convened in twice in the reporting period;
- All unserviceable, obsolete and surplus assets identified are disposed off.

### Youth Internship / Industrial Attachment / Apprenticeship

In the contract period, the Board progressively involved youth in internship / industrial attachments. Some 920 youths were offered skills transfer through the internship program.

### Youth, Women and Persons with Disabilities Empowerment

The Board reserved 30% of procurement bids from KenGen's non-operations planned procurement (excludes capital development, operations and maintenance for power plants) from youth, women and persons with disabilities. In the year, value of tenders awarded to qualifying firms totalled Shs 464 million (2014 - Shs 416.4 million). A summary of procurements allocated to the target groups were submitted to the Public Procurement Oversight Authority (PPOA).

### Compliance with Constitutional and other Statutory Obligations

The Board ensured compliance with, and enforcement of the Constitution and other statutory obligations. The Company undertook an audit to establish the extent of compliance and enforcement with emphasis on the following sub-indicators:

Parameter	Implementation initiatives (2014/15)
Implementation of Constitution	<ul style="list-style-type: none"> <li>• Compliance with Chapter 6 on Leadership &amp; Integrity embedded as a requirement in all appointments to senior positions. All senior management staff made written declarations on integrity under oath and copies filed by HR while Article 71 on agreements relating to natural resources has been included in the Company's Annual Legal Compliance matrix. Tender Evaluation Committee members routinely sign forms undertaking to observe confidentiality throughout the exercise</li> </ul>
Compliance with public procurement regulations / rules	<ul style="list-style-type: none"> <li>• Compliance with the procurement plan as part of the budgeting process, and presented during the negotiation of the performance contract.</li> <li>• Compliance with the Public Procurement and Disposal Act and Regulations</li> </ul>
Remittance of statutory deductions	<ul style="list-style-type: none"> <li>• Remittances have been confirmed and tax compliance certificates from KRA were duly filed</li> <li>• Accurate deductions are effected and remittances made monthly. Compliance certificates from NSSF and NHIF and WCPS have been duly filed</li> <li>• Deductions made from staff and remittances made to the HELB</li> </ul>
Disability Mainstreaming	<ul style="list-style-type: none"> <li>• Continued to implement the policy on Disability Mainstreaming and Action Plan;</li> <li>• Gender and Disability Development Centre (GDDC) held a Bi-annual Congress in Naivasha in April and 6 staff received the training on disability mainstreaming in the workplace;</li> <li>• Submitted quarterly reports to the NCPWD.</li> </ul>

## Review of Our Performance

Gender Mainstreaming	<ul style="list-style-type: none"> <li>• Implemented Company gender policy</li> <li>• Continuous gender training and sensitization of employees on gender mainstreaming enhanced;</li> <li>• 46 of the 398 employees engaged in the quarter were women, representing 12%;</li> <li>• Baseline and benchmarks for measuring progress of the number of women-led enterprises accessing 30% public procurement tender opportunities has been initiated;</li> <li>• Submitted quarterly progress reports to National Gender and Equality Commission and copy to Directorate of Gender, Ministry of Devolution and Planning on the level of gender mainstreaming as per the prescribed format.</li> </ul>
Environmental Sustainability	<ul style="list-style-type: none"> <li>• Environmental policy is domesticated, communicated in all areas and available on the KenGen intranet.</li> <li>• Environmental awareness creation program implemented for all new staff in Olkaria through a workshop.</li> <li>• 23,101 trees planted and 284,046 seedlings distributed.</li> </ul>
Safety Measures	<ul style="list-style-type: none"> <li>• Safety weeks and safety committee meetings for registered workplaces were held in all areas;</li> <li>• Emergency drills were carried out and fire marshall trainings conducted for various staff.</li> <li>• An email account was developed to streamline safety reporting.</li> <li>• Information Security Management System (ISMS) is in place.</li> </ul>
National cohesion and national values mainstreaming	<p>KenGen implements Government policy on national cohesion and the following national values:</p> <ul style="list-style-type: none"> <li>• Equity</li> <li>• Non-discrimination</li> <li>• Good governance</li> <li>• Transparency</li> <li>• Accountability</li> <li>• Sustainable development</li> </ul>

## Plant Operations & Projects Delivery

### MDA Priority Indicators (Electricity Generation Growth)

KenGen implemented road maps and funding plans for 280MW Olkaria I&IV and 20.4MW Ngong I & II projects. These projects are 100% complete as well as 50MW of geothermal wellheads. As such, 255.4MW from the five (5) priority geothermal projects totalling 260.4MW, scheduled for the year, are commissioned. One wellhead unit of 5MW was delayed but on course for commissioning in the next period. These are highlighted in the project implementation criteria. Additional projects, totalling 511MW, are in line with the 5000+MW program and are ongoing though scheduled for commissioning beyond 2014/15.

### Project Implementation

This indicator measures the implementation of generation capacity expansion projects to meet the forecasted power demand (the relevance of the project). The 100% completion target is based on activities scheduled for projects to be commissioned in the contract period. KenGen ensured 100% cost effectiveness in the implementation of identified projects within budget.

*Project Schedules and Milestones up to 30th June 2015*

Project	Capacity (MW)	Commissioning	Project Milestones as of 30 June 2015
Ngong I Wind (Belgium)	6.8	Sep-14	Commissioned and connected to grid in early January 2015
Ngong II Wind (Spanish)	13.6	Oct-14	Commissioned and connected to grid in early January 2015
Wellhead Project	30	Sep-15	Units 6 & 7 – commissioned in February and March 2015 respectively Unit 8 – installed and commissioned Units 9 & 10 – installed in June 2015 and 30-day reliability runs commenced
Vision 2030 Projects			
Olkaria I Unit 4&5 (Geothermal)	140	Dec-14	Commissioning of both units done Unit 4: Under DLP since November 2014 Unit 5: Under DLP since January 2015
Olkaria IV (Geothermal)	140	Sep-14	Installation of both units done Both under DLP since September 2014

Cost efficiency average for the year is 100% and 99% for the completion rate.

### Capacity Utilization / Plant Availability

KenGen's plant availabilities are based on threshold targets and differ due to complexity of generation modes in regard to wear and tear. They are in harmony with industry practice that provides for planned and unforeseen machine outage and are as per the signed power purchase agreements with the off-taker – Kenya Power.

Within the year, the average availabilities were;

- i) 98.37% for hydro, above the 82% threshold;
- ii) 98.02% for geothermal, above the 85% threshold;

- iii) 92.63% for gas turbines, above the 80% threshold;
- iv) 88.41% for diesel, above the 80% threshold;
- v) 90.03% for off-grid against the 80% threshold.

### Ease of Doing Business

KenGen fostered an environment in which it is easy to do business by ensuring full disclosure of information to investors and shareholders and adherence to all set standards, laws and regulations.

## Review of Our Performance

### Human Resource Management and Development

The Board ensured employees were well managed in regard to recruitment, performance appraisal, rewards and sanctions, industrial relations and the systematic enhancement of knowledge, skills and proficiencies. This aimed to address career progression and improve both individual and institutional performance. The Company addressed the following sub-indicators:

Parameter	Implementation Initiatives 2014/2015
<b>Skills / competence needs assessment and intervention programs</b>	<ul style="list-style-type: none"> <li>a. baseline skills / competence needs assessment to establish the skills development index level commenced and rolled over to the next period</li> <li>b. 1800 staff underwent training programmes to increase their skill development. This is in tandem with the Corporate Training Plan.</li> </ul>
<b>Performance appraisal for employees, including implementation of performance incentives and sanctions framework</b>	<ul style="list-style-type: none"> <li>a. All management staff are on a Performance Appraisal System (PAS);</li> <li>b. Various supervisors were sensitised on performance incentives and sanction framework as stipulated in human resource decentralization policy;</li> <li>c. End of year</li> </ul>
<b>Knowledge management: process of capturing, developing, sharing and storing individual and institutional knowledge</b>	<ul style="list-style-type: none"> <li>a. 64 critical staff (knowledge harvesters) across the business underwent a knowledge management / awareness programme in the previous period;</li> <li>b. Officers who attend individual training programmes submit reports;</li> <li>c. Knowledge and skills acquired are shared through discussion forums on the Intranet and the E- Learning draft policy, with an objective to enhance professional Knowledge of the staff, is under review</li> <li>d. Copies of such reports will be made available in the Company library for reference by all members of staff. A local content platform, KenGenpedia, is underway. It will provide an avenue for developing and hosting local content relating to KenGen's knowledge, experiences and insights for future reference.</li> </ul>
<b>Work environment</b>	<ul style="list-style-type: none"> <li>a. Recommendations of the exit survey for 2013/14 were implemented;</li> <li>b. A status report will be prepared on implementation</li> </ul>
<b>Prevention of Alcohol and Drug Abuse</b>	<ul style="list-style-type: none"> <li>a. Submitted annual alcohol and drug abuse (ADA) work-plan to NACADA at the beginning of the contract period;</li> <li>b. Workplace policy on prevention of ADA implemented;</li> <li>c. Strengthening of capacity of ADA prevention unit done to implement the work-plan;</li> <li>d. Sensitization workshops on dangers of ADA held in all areas; and</li> <li>e. Staff with substance use disorder (SUD) identified and peer educators engage them in accepting treatment and rehabilitation through one-on-one sessions.</li> </ul>

Parameter	Implementation Initiatives 2014/2015
<b>Prevention of HIV/AIDS Infections</b>	<ul style="list-style-type: none"> <li>a. VCT services are offered continuously in most areas while family days are held in HIV related issues. Ministry of Health was on hand to offer VCT services;</li> <li>b. VCT services are conducted in various areas / clinics;</li> <li>c. Family Days were held in areas and VCT services offered;</li> <li>d. Annual HIV/AIDS performance framework submitted to the National AIDS Control Council (NACC) at the beginning of the contract period; and</li> <li>e. Quarterly reports were submitted to NACC on time.</li> </ul>
<b>Submission of pension's documents</b>	Pension documents are submitted to the Pensions Department nine (9) months before retirement date with the exception of the Last Pay Certificate and Tax Clearance. Twelve (12) employees retired in the period.

### Corruption Eradication

In the period, the Board committed to level four (4) with zero incidences on corruption reported. This was guided by report on National Survey on Corruption and Ethics by the EACC indicating the status / ranking of the Company. The aim is to progress from level one (1) to level five (5) to attain Integrity Certification within a period of three (3) years. In addition, the Company:-

1. Submitted a workplan to EACC for the implementation of the indicator in quarter I
2. Submitted the annual procurement plan to EACC;
3. Quarterly reports to EACC, using prescribed format clearly indicating corruption prevention strategies, were submitted on time;
4. Submitted the quarterly reports, on all tenders and contracts awarded above the threshold of Ksh. 500,000. The information submitted included names of the companies and contracts / tender prices, as guided by EACC.

## Review of Our Performance

### Corporate Performance Report

KenGen registered a historic milestone in capacity expansion, revenue and profitability due to new capacity from geothermal and wind as demonstrated from extracts of the audited financial statements for the year ended 30 June 2015.

#### Total revenues

Total revenue grew by 44% in 2015 compared to 2014 propelled by capacity and additional generation from the new power plants.

	2015 Shs'm	2014 Shs'm	Change %
Capacity	19,102	13,242	44%
Energy	6,206	3,655	70%
Forex recovery	294	527	(44%)
<b>Electricity revenue</b>	<b>25,602</b>	<b>17,424</b>	<b>47%</b>
Interest and other income	984	1,067	(8%)
<b>Total revenue</b>	<b>26,586</b>	<b>18,491</b>	<b>44%</b>

#### Revenue from sale of electricity by source

Geothermal contributed significantly to both capacity and energy revenue growth in the year under review compared to previous year. Wind generation also realized remarkable increase.

	Capacity			Energy			Total		
	2015 Shs'm	2014 Shs'm	Change %	2015 Shs'm	2014 Shs'm	Change %	2015 Shs'm	2014 Shs'm	Change %
Hydro	7,677	7,579	1%	1,368	1,271	8%	9,045	8,850	2%
Geothermal	8,260	2,421	241%	3,930	1,477	166%	12,190	3,898	213%
Thermal	3,165	3,242	(2%)	602	799	(25%)	3,767	4,041	(7%)
Wind	-	-	-	306	108	183%	306	108	183%
<b>Total</b>	<b>19,102</b>	<b>13,242</b>	<b>44%</b>	<b>6,206</b>	<b>3,655</b>	<b>70%</b>	<b>25,308</b>	<b>16,897</b>	<b>50%</b>



## Review of Our Performance

### Profitability

KenGen recorded strong profitability in 2015 compared to 2014

#### Condensed Statement of Comprehensive Income

	2015 Shs' m	2014 Shs' m	Change %
<b>Revenue</b>			
Electricity revenue	25,602	17,424	47%
Other income	625	651	-4%
	<b>26,227</b>	<b>18,075</b>	<b>45%</b>
Operating expenses	(8,406)	(7,018)	20%
<b>EBITDA</b>	<b>17,821</b>	<b>11,057</b>	<b>61%</b>
Depreciation & Amortisation	(6,479)	(4,727)	37%
<b>EBIT</b>	<b>11,342</b>	<b>6,329</b>	<b>79%</b>
Interest income	359	416	-14%
Finance costs	(3,011)	(2,588)	16%
<b>Profit Before Tax</b>	<b>8,690</b>	<b>4,158</b>	<b>109%</b>
Tax income/(expense)	2,827	(1,332)	-312%
Profit for the year	<b>11,517</b>	<b>2,826</b>	<b>308%</b>
Other Comprehensive Income	54,247	1,244	4,261%
<b>Total Comprehensive Income</b>	<b>65,764</b>	<b>4,070</b>	<b>1,516%</b>
<b>Earnings Per Share – Basic and diluted (Shs)</b>	<b>5.24</b>	<b>1.29</b>	<b>306%</b>

Operating revenue increased in 2015 compared to 2014 as a result of increased revenues driven by new geothermal plants.

### Operating expenses

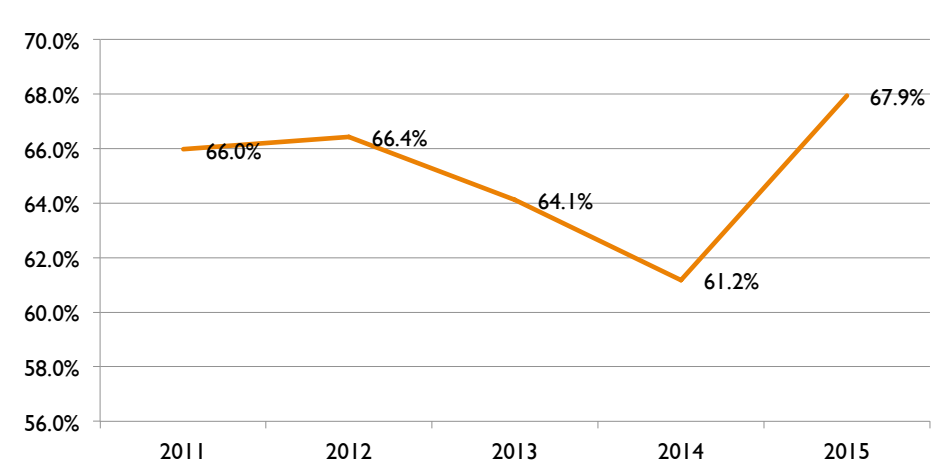
Operating expenses increased owing to costs associated with operating and maintaining the newly completed plants. In line with our growth strategy, staff numbers with necessary skills have grown gradually over the years to meet the operating requirements of the newly completed power plants. This has contributed to an increase in operating expenses. We have also employed specialist staff in geothermal area to fast track the drilling of steam for upcoming projects in Horizon II. With increased capacity, the ratio of staff to installed capacity has declined steadily. We aim to have a ratio of one employee/MW as per international benchmarks.

## Review of Our Performance

Other comprehensive income increased due to revaluation surplus from property, plant and equipment net of deferred tax.

### EBITDA Margin

We have continued to grow our EBITDA through increased capacity and cost optimization. In the year ending 30 June 2015, we realized a margin of 68%, an increase from 61% recorded in 2014. This is due to the fact that the revenue for the new plants was majorly for half year. The full effect will be felt in 2016



### Financial Strength

Condensed statement of financial position

#### ASSETS

Property, Plant and Equip.  
Other Non-current Assets  
Current Assets

#### EQUITY AND LIABILITIES

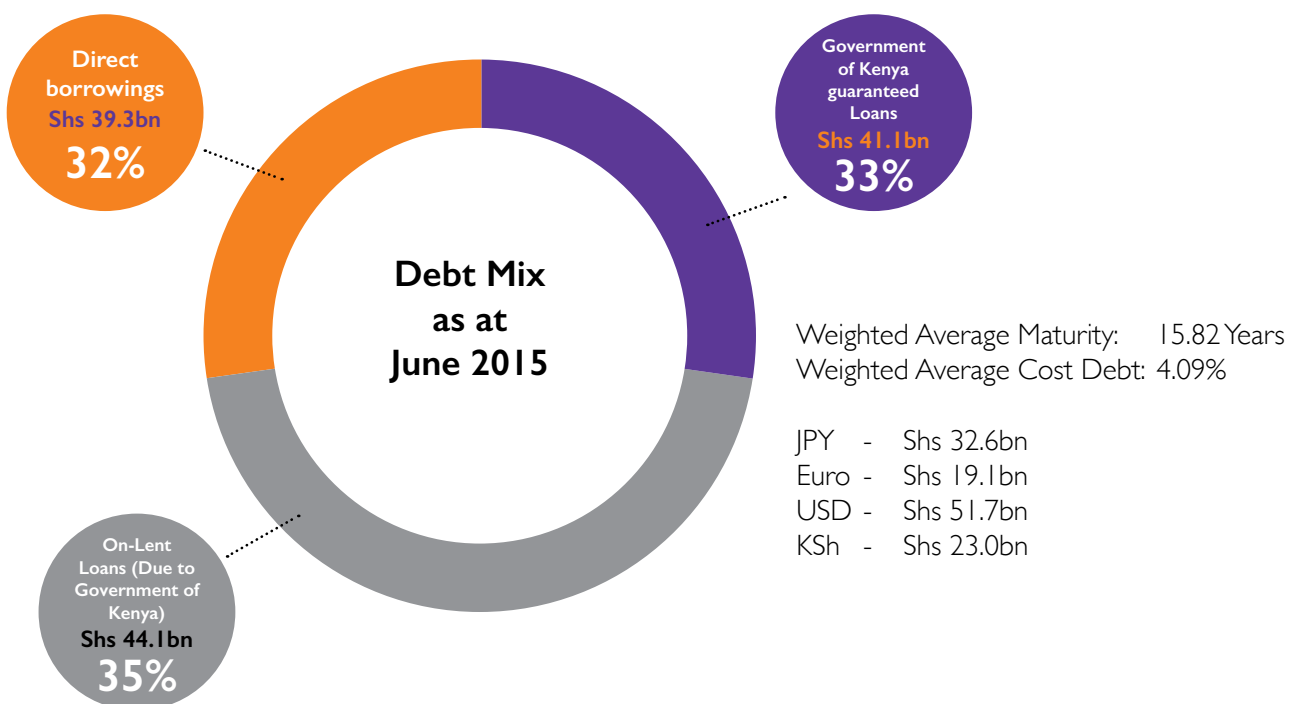
Share Capital  
Reserves  
Borrowings  
Other non-Current Liabilities  
Current Liabilities

	2015 Shs'm	2014 Shs'm
Property, Plant and Equip.	305,379	209,236
Other Non-current Assets	15,772	13,339
Current Assets	21,369	27,631
	<b>342,520</b>	<b>250,206</b>
Share Capital	5,496	5,496
Reserves	136,098	71,214
Borrowings	137,191	122,324
Other non-Current Liabilities	41,255	25,976
Current Liabilities	22,480	25,196
	<b>342,520</b>	<b>250,206</b>

Our asset base increased by 37% due to completion of new plants and revaluation of existing property, plant and equipment which resulted in a surplus of Shs 77,203 million after revaluation by independent professional valuers in line with international best practice.

At 30 June 2015, the statement of financial position reflected a net current liability position resulting from heavy cash required for capacity expansion. This is expected to return to a net current asset position through the proceeds that will be received from capital restructuring and fund raising activities planned for the year ending 30 June 2016.

## Looking at our debt



## Capital Investments

The company spent Shs 27,686 million in 2015 compared to Shs 61,084 million in 2014 in capital projects to increase power generation for the growing economy as shown. The decline reflects the completion of the mega 280MW Olkaria project whose construction was ongoing from 2013 to 2015.

### Project

Kindaruma rehabilitation	
Olkaria I & IV	
Wellhead	
Purchase of Rigs	
Ngong Wind	
Geothermal Resources Development-Drilling of steam wells	
Other projects	
<b>Total capex</b>	

	2015 Shs'm	2014 Shs'm
Kindaruma rehabilitation	279	431
Olkaria I & IV	3,953	30,426
Wellhead	3,425	2,718
Purchase of Rigs	-	185
Ngong Wind	335	3,584
Geothermal Resources Development-Drilling of steam wells	16,101	19,731
Other projects	3,593	4,008
<b>Total capex</b>	<b>27,686</b>	<b>61,084</b>

## Review of Our Performance

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### Cash flow

We continued to generate cash from our operations which increased marginally by Shs 418 million during the year under review owing to strained working capital. Cash from investing activities declined due to less disbursement for the Olkaria 280MW projects which was completed during the year. However, we maintained positive cash balances despite huge investments for the last three years through prudent cash management

	2015 Shs' m	2014 Shs' m
Balance at 1 July	4,628	3,997
Net cash generated from operating activities	12,525	12,107
Net cash used in investing activities	(27,859)	(59,959)
Net cash generated from financing activities	13,998	48,484
<b>Balance at June</b>	<b>3,292</b>	<b>4,628</b>

**OUR  
STRATEGIC  
DIRECTION**



## Our Strategic Direction

### Business Growth and Capacity Expansion

#### The Power Sector Master Plan

Electricity remains a key enabler for economic growth and sustainability as stipulated in Vision 2030 economic pillar. The Vision has identified key flagship projects that require a robust acceleration of electricity generation as a critical enabler towards their realization. Implementation and operationalization of these projects will create a huge demand-supply gap for electricity which needs to be addressed.

The Government has therefore committed itself to fast-track the provision of adequate, reliable and affordable electricity in the country to support these growth initiatives. To this end, the Government through the Ministry of Energy & Petroleum (MOEP) is fast-tracking generation expansion as demonstrated by the 5000+MW programme of 2013 as indicated below.

GOK 5,000MW+ IN 40 MONTHS INITIATIVE								
TECHNOLOGY	NEW CAPACITY ADDITIONS (MW)							
01-Jul-13	28-Dec-13	26-Jun-14	23-Dec-14	21-Jun-15	18-Dec-15	15-Jun-16	13-Oct-16	TOTAL
	6	12	18	24	30	36	40	
HYDRO	24	0	0	0	0	0	0	24
THERMAL	87	163	0	0	0	0	0	250
GEOHERMAL	90	176	190	50	205	150	785	1,646
WIND	0	0	20	60	300	250	0	630
COAL	0	0	0	0	960	0	960	1,920
LNG	0	0	0	700	350	0	0	1,050
CO-GENERATION	0	0	18	0	0	0	0	18
<b>TOTAL</b>	<b>201</b>	<b>339</b>	<b>228</b>	<b>810</b>	<b>1,815</b>	<b>400</b>	<b>1,745</b>	<b>5,538</b>

Additionally, the MOEP continues to plan and monitor implementation of the National Electricity Master Plan dubbed "Least Cost Power Development Plan (LCPDP)", a 20 year national electricity generation, transmission and distribution plan which synchronizes the activities of all electricity players for system optimization.

KenGen operates within the LCPDP framework as a major contributor towards the generation segment as indicated in the following table:

#### LCPDP Medium Term Plan 2015-2020

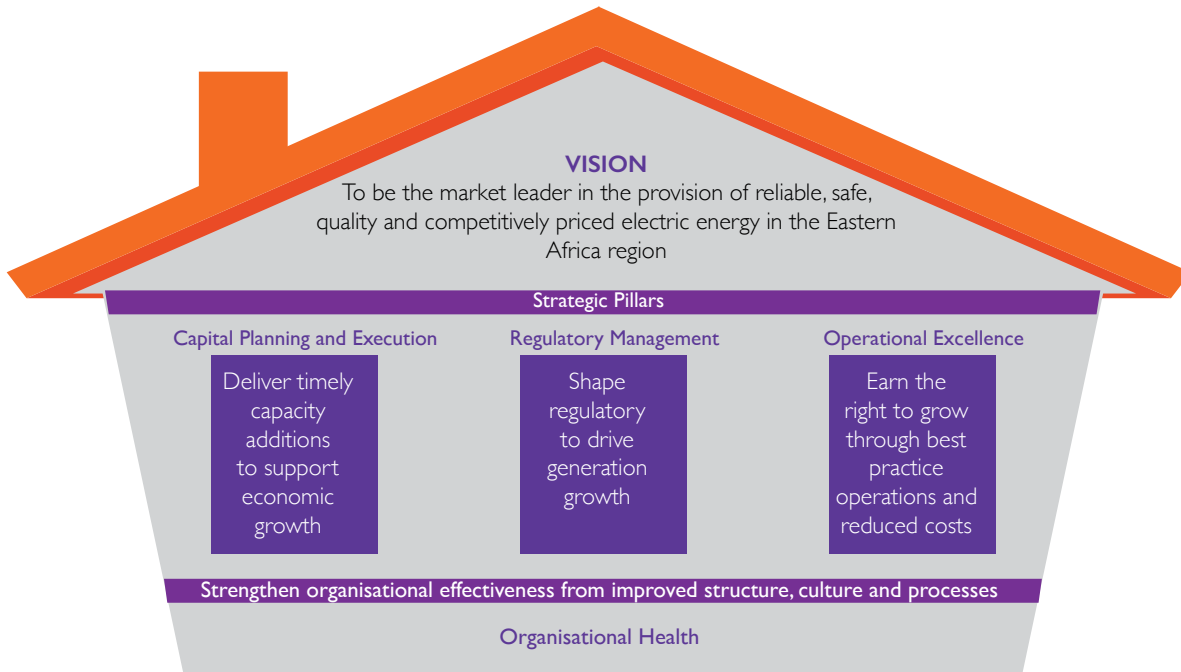
No	Generator	Generation Capacity (MW)
1.	KenGen	1,156.1
2.	Geothermal Development Company (drilling function), KenGen (power plant construction) & Independent Power Producers*	912
3.	Independent Power Producers	2,414.5
4.	Feed In Tariff	134.85
5.	Imports	400
<b>Grand Total</b>		<b>5,017.45</b>

\*These are open for implementation by the entities subject to tendering process.

## Our Strategic Direction

### KenGen's Strategic Plan-“The Strategic House”

KenGen developed a 10 year Strategic Plan dubbed “G2G” transformation strategy for moving from a “Good Company” to a “Great Company” through the creation of sustainable value from “One Generation” to the “Next Generation” by 2018. The strategy is focused on 3 key pillars founded on a healthy organizational environment.

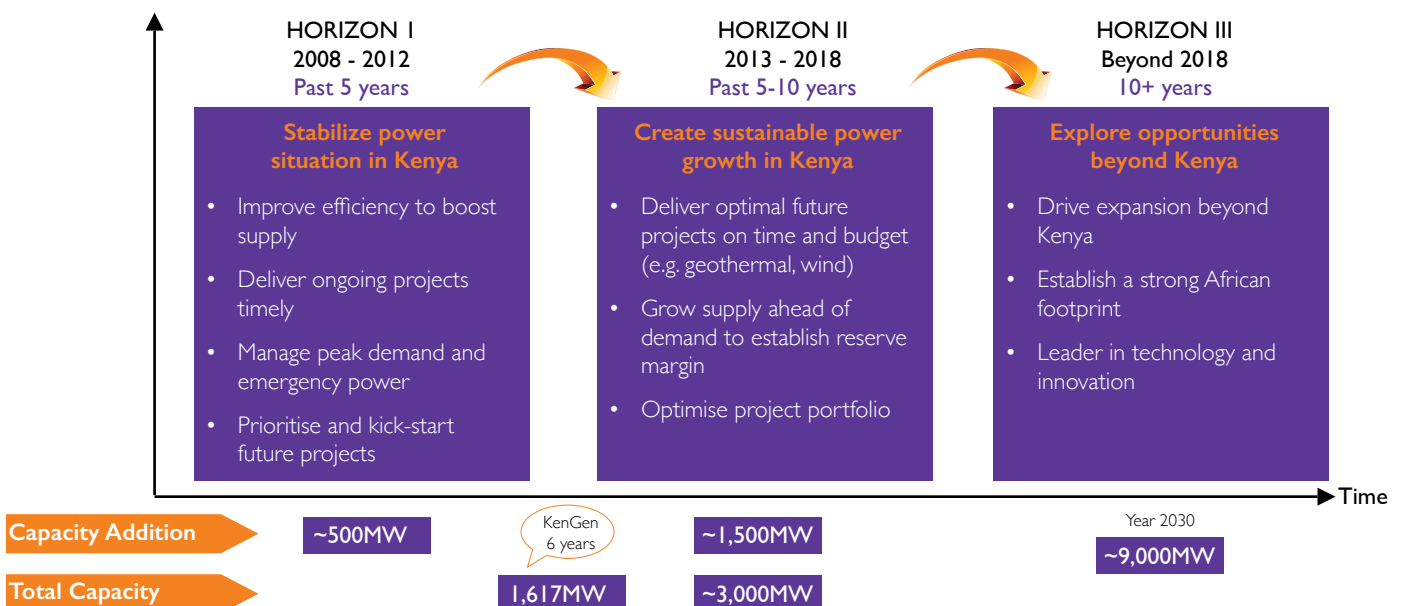


### KenGen's Strategic Direction

KenGen's strategic direction aligns well with the national growth plan. This is aimed at stabilizing and creating a sustainable power system in the country by increasing generation capacity from the initial 918MW in 2007 to over 3,000MW by 2018.

The strategic direction is divided into 3 milestones, popularly known as Horizons are indicated in the figure following:

#### Strategic Goal to Increase Capacity to 3,000MW by 2018



## Our Strategic Direction

### Strategic Projects Delivered

The following table indicates the projects implemented since 2007 up to the end year under review.

Comm Year	Project	Capacity addition
2008	Sondu Miriu Hydro Project	60
2009	Optimization of Kiambere hydro Project	24
	Tana upgrade	+12
2010	Ngong Wind-Phase I	5.1
	Olkaria II 3rd Unit	35
2011	Kipevu III	120
2012	Eburru	2.5
	Well head pilot	5
	Sang'oro	21
	Kindaruma Unit 1 and 2 Upgrade and 3rd Unit	24
2013	Kindaruma Unit 1 and 2 Upgrade	8
2014	Olkaria I AU	73
	Wellheads I	25.6
2015	Olkaria I & Olkaria IV	227.3
	Ngong wind	20.4
	Wellheads II	25.5
	<b>Total</b>	<b>688.4</b>

During the year, KenGen delivered the 280MW geothermal project, 20.4MW of wind and 25MW from wellheads. These projects not only put the Company firmly on course in the implementation of Horizon II projects, but also contributed to the Government's target to reduce the cost of power by over 30%.

Kenya moved up the global geothermal ladder to position eight, with a total national installed capacity of 609MW. Eighty percent of the country's energy requirements are derived from green sources. This follows the commissioning of 280MW geothermal power during the year, adding to the rich mix of hydro and wind sources as well as the Company's 25MW from wellhead technology. This milestone, for the first time in the history of the country, helped shift the base load to geothermal. Geothermal now accounts for about 47% of the total national energy consumption, a reflection of the Company's commitment to the green energy agenda.

Accruing revenues from ongoing registration of the 280MW project to the Clean Development Mechanism (CDM) will add to the existing non generating streams for the Company.

### Capacity Expansion

The Company capacity expansion program focuses mainly on the geothermal resource harnessing with a national potential of 10,000MW along the Kenyan Rift Valley. Of this, 2,000MW is in KenGen's Olkaria licensed area. Exploration and drilling programs to support optimal utilization of this field are on course. Additionally, we are exploring other renewable energy generation sources including wind and solar in various parts of the country.



## Our Strategic Direction

The following table highlights the Company's ongoing and future projects up to the year 2020.

Plant	Capacity (MW)	Comm year	Status
Wellhead Generation	25	2016	Implementation
Olkaria I Unit 6	70	2017	Procurement of contractor
Olkaria V	140	2017	Procurement of contractor
Olkaria I Rehab	5.7	2017	Financing
Olkaria VI	140	2018	Procurement of transaction advisor
Olkaria VII	140	2019	Sourcing for drilling finance
Olkaria I & IV Topping Up	60	2020	Feasibility
<b>Sub-Total</b>	<b>580.7</b>		
Meru Wind Project(Phase I)	50	2018	Land application
Meru Wind Project(Phase II)	80	2019	Land application
Ngong Wind (Phase III)	10	2020	Feasibility
<b>Sub-Total</b>	<b>140</b>		
<b>TOTAL</b>	<b>720.7</b>		

### Ongoing and future projects

KenGen's Investment program targets the implementation of 720.7MW by 2020. The Company's main focus is on the implementation of geothermal projects which accounts for over 50% of the planned investment. The competitive advantage afforded by abundance of geothermal resource ensures the Company remains the leader in the provision of reliable, safe and affordable power beyond its strategic horizon. A robust drilling program is on course to support the implementation of geothermal projects.

## Delivery Options under Consideration

### Public Private Partnerships

Globally, public private partnerships (PPPs) frameworks are increasingly becoming an alternative way for financing large capital intensive infrastructural development projects that governments are unable to finance through conventional methods. The government has embraced this approach to close the financial gap as well as leverage the skills and know-how of private businesses.

KenGen has been granted approval to develop projects through the PPP framework which included geothermal projects in Olkaria, wind, LNG, Coal and Solar. To this end, the Company is in the process of procuring a transaction advisor to assist in the procurement of a private partner for the development of 140MW Olkaria VI geothermal project.

### Olkaria Industrial Park

The Company's growth strategy is geothermal led. In addition to power generation, the Olkaria field is endowed with abundant supply of brine water and steam heat which could be utilized for non-direct use purposes by industries.

The Company is in the process of developing a premier industrial park in Olkaria anchored in the provision of a competitive business environment for industries. Locating energy intensive industries at close to bulk electric power supply, water and heat will create a load demand for geothermal power. This park will benefit from competitively-priced geothermal energy (steam/heat and electricity) in a zoned, mixed-use park.

The company is undertaking a feasibility study that will guide the development of a master plan which is expected to map out the highest and best use of the resources.

## Our Strategic Direction

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### Regulatory Strategic Focus

#### Overview and Performance

KenGen operates in a regulated environment under the Energy Act of 2006. The Company sells all its power to one buyer- Kenya Power which is the sole off-taker. Sale of electricity is through long term power purchase agreements (PPA) which guarantee revenues over the expected economic life of the plants.

PPAs are long term contracts-between a power generating company and an off-taker for a minimum of 15 years.

#### Strategic Objective

Secure PPAs that guarantee return on investment by the generation Company. With guaranteed revenues, the Company uses the PPA to secure equity and debt financing for construction of power plants.

These long term PPAs also provide a window for review to cater for emerging issues that include changes in law.

#### Milestones

The Company continues to lobby for a favourable regulatory environment with a view to safeguarding the interests of shareholders.

There are two types of PPAs: Capacity-based and energy-based PPA. A capacity-based PPA is a take or pay PPA which guarantee payment to the Company for as long as the plant is available for dispatch. Most of KenGen's major plants are capacity-based which guarantees continuous revenues to the Company. During the year, three capacity-based PPAs of 301MW namely 140MW Olkaria I additional units 4 & 5, 140MW Olkaria IV power plants, 21MW Sangoro came into force.

For energy-based PPAs, payment is determined only by the amount of units sold to the off taker. Small hydro plants, wind power plants and off-grid thermals are operating under energy PPA.s Two energy-based PPAs of 20.4MW namely 6.8MW Ngong I Phase II and 13.6MW Ngong II were operationalized in the year.

#### Current Developments

KenGen has been advocating for the establishment of a hydro risk mitigation fund to cushion the company from the adverse effects of poor hydrology. Implementation of the outcome of the negotiation between KenGen and Kenya Power is under consideration.

The cost of major maintenance and plant rehabilitation for the PPAs that came into force in the year 2009 are under review. The successful review will positively impact the company's revenues.

#### Going forward

Several other PPAs for upcoming power plants namely 140MW Olkaria V, 140MW Olkaria VI, 70MW Olkaria I Unit 6, 50.7MW Olkaria I Rehabilitation & Upgrade, 50MW Meru Wind Phase I are in the pipeline.

#### Stakeholder Management & Community Engagement

The Constitution vests land ownership in county governments in whose jurisdiction KenGen operate. This has brought a new dimension to land acquisition for project development and expansion. This has recently emerged as a risk to project cost and implementation. This in turn affects the conclusion of PPA negotiations and tariffs.

#### Strategic Objective

KenGen endeavours to improve stakeholder management to ensure timely and cost effective project delivery.

#### Milestones

KenGen continues to engage major stakeholders on a variety of issues including PPA negotiation and implementation, security and anti-terrorism and land acquisition.

KenGen has set up a mechanism to deal with community issues, management of environmental and social impacts, dealing with regulatory authorities and government institutions. The company continues to form Stakeholder Co-ordination Committees (SCC) to ensure harmonious project implementation. This is necessary to enhance timely project delivery. During the year, various SCCs successfully dealt with a wide range of stakeholder concerns on areas such as employment and economic opportunities, environmental and safety concerns, health and social issues.

#### Going forward

KenGen has a memorandum of understanding (MOU) with Kenya Wildlife Service on mutual co-existence between nature and power project development, including restoration of the environment following drilling activities.

Additionally, the Company through four key focus areas in corporate social investment (CSI), namely, education,

## Our Strategic Direction

water, sanitation and environmental conservation addresses community issues.

### National Energy Policy & Energy Bill

KenGen has been a key participant and contributor to the review of the National Energy Policy and Energy Bill. The reforms and restructuring of the Kenyan electricity sub-sector has been going on since the mid-90s. The key aims of these reforms are as follows:

- Create appropriate legal, regulatory and institutional framework for the industry
- Ensure provision of affordable, competitive, reliable, efficient and sustainable electricity
- Increase access to electricity to stimulate economic growth
- Improve efficiency of power distribution and supply through reduction in system losses and collection of revenues
- Create a more competitive market structure for public and private players in the supply chain

The Bill further proposes the establishment of the renewable energy resource advisory committee to primarily provide advice regarding the management of geothermal resources. Some of the far-reaching recommendations includes establishment of an independent system operator (ISO) responsible for grid control, operations and system dispatch.

KenGen views the National Energy Policy & Energy Bill as two pivotal legislative documents which will accord the Company a favourable business environment.

## Operational Excellence

### Introduction

Operational Excellence is an element of organizational leadership that stresses the application of a variety of principles, systems, and tools toward the sustainable improvement of key performance metrics.

Today's energy environment has become very dynamic and competitive, prompting businesses to adopt new ways to ensure sustainable financial success.

## Strategic Objective

KenGen is committed to excelling in its operations in pursuit of high plant performance as measured by key performance indicators such as plant availability, reliability, safety and plant utilization factors.

### Milestones

Towards this end, the company continued to improve its maintenance practices, rehabilitate and upgrade plants, adopt new technologies as well as optimize business processes. Impressive results have been achieved in the following areas:

#### 1. Generating Fleet Performance

Plant availability is the key measure of performance of the generating fleet which has direct impact on the company's financial performance. With the capacity based power purchase agreements under which most of our major plants operate, high plant availability is a premium since it amounts to good financial returns. The additional geothermal capacity of 280MW commissioned during the year under review has tremendously improved the installed capacity by beyond 20% assuring enhanced overall system reliability.

Generation mode	Target PPA Availability (%)	Actual Weighted Average Availability (%)
Hydro	90	94.37
Thermal	85	84.65
Geothermal	94	89.17
Wind	N/A	94.46

#### 2. Maintenance Practices

High plant availability is attained by implementation of a mix of time-based (TM) and condition based maintenance (CBM), CBM is gaining currency over TM to eliminate unnecessary time based outages and associated costly downtimes. The Company's ultimate goal is to eliminate time-based maintenance and undertake a complete shift to CBM thereby ensuring plants are maintained only when necessary. KenGen is investing in modern instrumentation and control systems to ensure the success of the CBM system. The commitment to CBM is evidenced by the installation of the SCADA systems that is able to collect data and relay to the PMS system for maintenance purposes. Currently, all major hydro stations are already

## Our Strategic Direction

equipped with a common SCADA system for remote operation from Kamburu Station. All other modern stations are equipped with the SCADA systems to enhance plant visibility, centralize operations and optimize maintenance.

Prolonged outage of plants for maintenance leads to loss of income for the company. To minimize outage periods, KenGen has adopted the SMED (Single Minute Exchange of Die) principle. This fundamental principle requires that all activities that can be accomplished prior to the kick-off of the outage are carried out before-hand.

The company has highly-motivated, skilled and proficient technical staff given a platform to tap into their vast resources in the provision of innovative home-grown

maintenance solutions in order to obviate the need for expensive external solutions.

Reliance on the technical capacity of our staff rather than outsourcing demonstrates the in house competency and capacity.

### 3. Rehabilitation and Upgrade of Plants

Rehabilitation and upgrade of old KenGen generation fleet is necessary to enhance plant availability and extend its economic lifetime while optimizing operations and maintenance costs. Wherever possible, modern technology is exploited to upgrade power output using the existing primary sources of energy. In the recent past, several plants have been rehabilitated as tabulated:

Plant Name	System Rehabilitated & Upgraded	Year	Output/Benefits		
			Performance	Installed Capacity/MW	
				Before Rehabilitation/ Upgrade	After Rehabilitation/ Upgrade
Turkwel Unit 1 & 2	Governor, Excitation & Protection	2014	Enhanced Plant Availability	53.0	53.0
Kamburu 1, 2 & 3	Excitation & Protection	2014	Enhanced Plant Availability	94.2	94.2
Mesco	Plant Upgrade (All Systems)	2013	Enhanced Plant Availability,	0.38	0.433
Masinga	Governor, Excitation	2012	Enhanced Plant Availability	40	40
Tana	Plant Upgrade (All Systems)	2013	Enhanced Plant Availability	14.4	20
Wanjii	Protection & Excitation	2007 & 2010	Enhanced Plant Availability	7.4	7.4
Kindaruma 1 & 2	Plant Upgrade (All Systems)	2012	Enhanced Plant Availability	40	48
Olkaria 1	Plant Upgrade (All Systems)	Expected 2016	Enhanced Plant Availability	45	50.7 (Upgrade Expected in 2016)
Sagana	Protection	2014	Enhanced Plant Availability	2.5	2.5
Kiambere 1 & 2	Governor	2009	Enhanced Plant Availability	72	84

### 4. Optimization of Business Processes

KenGen Enterprise Resource Planning system installed way back in 2010 is utilized across the company for the implementation of day to day activities. It is a one-stop information technology system encompassing several modules tailored to meet the needs of various divisions. Examples of key modules within the ERP are Finance, Plant Maintenance and Inventory. The integrated approach aids interaction and effective capturing of information and data. This improves reporting and timely informed and decision making. This transparency and interaction shifts emphasis from “order taker” to “equal partner” synergies between the various teams.

In addition, the ERP promotes paperless business approach in adherence to best environmental practices. It also improves system transparency and demystify the operations of various business units.

The Company is certified to both ISO 9001:2008 for Quality Management and ISO 9001:14001 for Environment Management. All our processes comply with these two ISO standards.

The implementation and maintenance of the standards ensure predictable quality outcomes irrespective of the maintenance team involved.

The company is increasingly adopting the total cost ownership (TCO) principle in the procurement of new plants and stocking of strategic spares. The TCO approach is preferred since it is more reflective of both the direct and indirect costs of ownership over the lifecycle of the plant including the social costs.

### 5. Implementation, Operation & Uptake of New Projects

Company projects are mainly supervised, managed and overseen by the Business Development Division. However, staff from other divisions are involved at various stages of implementation to improve the project uptake upon commissioning and handover. The operations team are involved right from drafting of the technical specifications, evaluation, installation and commissioning to ensure that KenGen gets commensurate value for the investment.

Apart from effective supervision, the sustained multi-functional approach aids skill and knowledge transfer. This improves project uptake and ensures our staff are able to hit the ground running regarding plant maintenance and operations upon commissioning and handover. The

adoption of this approach is in line with our rich corporate culture of operational excellence and facilitates timely and effective resolution of the teething problems associated with new plants. The sustained involvement compliments the initial training prior to commissioning and obviates the often expensive practice of training staff barely a few years following commissioning of new plants.

### 6. Best Practices and Benchmarking

The company continues to adopt best practices through benchmarking in pursuit of operational excellence. Staff from a particular station visit other stations to learn and share knowledge with colleagues and exchange best practices. Through these visits, staff are able to exchange cultures and weed out the undesired behaviours ultimately aiding realization of corporate goals.

Various individual teams meet regularly to share ideas and best practices and facilitate each other's work. KenGen staff are also encouraged to visit other reputable companies within Kenya to appreciate unique approach and adopt best practice with a view to realizing operational excellence.

Benchmarking with internationally reputable companies particularly in the energy industry is also conducted to aid the adoption of international best practices. KenGen also proudly plays host to both local and international visitors who visit with the aim of appreciating and adopting the Company's best practices.

### 7. Energy Audits, Efficiency and Energy Back-feeds

Energy audits of the company's installations are duly conducted in compliance with the regulatory requirements. The areas of improvement identified are duly implemented to ensure the company's major equipment and systems are energy efficient.

Examples of major achievements of the energy audits is the installation of power factor correcting capacitors for motors associated with water pumping systems in Olkaria, tapping of power directly from the generation busbars for Olkaria water pumping systems rather than utilizing the expensive grid power and general optimization of both mechanical and electrical systems to eliminate waste resulting in tremendous financial benefits. With total cost of ownership procurement principle, energy efficient motors are preferred to standard motors though the latter incur lower initial costs.

## Our Strategic Direction

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One of the major transformation initiatives is the optimization of the energy back-feeds to the absolute unavoidable minimum. Implementation of this initiative is ongoing and has the potential of positively impacting the company revenues through elimination of the expensive energy back-feeds from the grid. Benefits of this initiative comprise improved system efficiency, optimizing of operations and maintenance costs thus ultimately promoting the company's operational excellence.

### Organisational Health

Organisational health is the foundation that supports KenGen's strategic temple that comprises three strategic pillars, namely, capital expansion, regulatory management and operational excellence. this foundation focuses on the following key areas:

- (i) Performance Management;** Continuous implementation and maintenance of the performance management system and sustaining a culture of achieving results,
- (ii) Succession Planning;** Creating a meritocratic and transparent promotion and succession planning process to manage talent across the entire organization,
- (iii) Governance;** Improving the organizational structure and governance to support the strategy,
- (iv) Planning and Budgeting;** Implementation of the annual planning and budgeting cycle to link the strategy to Company financial and operational budgets,
- (v) Innovation and Continuous Improvement;** Promote innovation and continuous improvement for business growth and sustainability,
- (vi) Technology;** Leverage technology to enhance the effectiveness of the organization's systems and processes.

### Performance Management

Continuous implementation and maintenance of the performance management system is geared towards sustaining a results-oriented culture. The key tenets of the Company's performance management systems include performance contracting sign-offs at various levels and cascading processes to set annual targets, monitoring of these targets through weekly performance meetings and undertaking bi-annual staff performance evaluations. These have aided performance accountability and identified skill

gaps that are addressed through trainings. In the year, the Company conducted block trainings to address the gaps.

The revamped performance management system thrust the company into the limelight and resulted in recognition of its achievements when it scooped prestigious awards in the following areas of:

#### 1. Financial Reporting (Promoters Award) by FiRe Awards

KenGen was in October last year, among entities awarded the prestigious award of Promoters at the 14th edition of the Fire awards. The year's theme was "Enhancing your brand through integrated reporting".

The Company was among 123 listed regional entities that submitted their audited accounts in 2014, and 153 listed entities in 2013 across East Africa.

The Company's bid for excellence in financial reporting for the best theme being at the forefront runner among its peers on the listed companies. KenGen is committed in promoting excellence in financial Sustainability, fostering sound corporate governance practices and enhancing social investment and environmental sustainability. The Company's has been participating in all the edition of Fire award since its inception.

#### 2. Clean Energy Project of the Year

KenGen was in April 2015 voted Africa's 2014/2015 Energy Company in a survey featuring major utilities across the continent.

Additionally, the 280MW - its flagship project and the world's single largest geothermal project - was voted the clean energy project. of the year

The company defeated a star-studded field of major power firms from Nigeria, South Africa, Ghana, Uganda and Rwanda to bag the prestigious awards. The 280MW, was a score for KenGen and the country, having helped to displace a similar amount of the expensive thermal power from the grid.

#### 3. Africa Power Utility of the Year 2015

KenGen won a double score for KenGen this year when our Company was also voted Africa's Energy Company in a survey by Africa Utilities Awards featuring major utilities across the continent. Additionally, the 280MW - our flagship project and the world's single largest geothermal project was voted 2014/2015 clean energy project during the awards that showcase renewable projects that are solving Africa's energy challenges.

## Our Strategic Direction

The 280MW, which has been running since last December is a score for KenGen and the country, having helped, displaced a similar amount of the expensive thermal power from the grid.

Additionally, the plant has moved the country up the geothermal ladder globally. KenGen's geothermal capacity has increased four-fold to the current level of 509MW, while Kenya is now the world's eighth largest supplier of geothermal energy, with 609MW of installed capacity (this represents five per cent of the total global geothermal production).

#### 4. Best Practice in Board Diversity Award by NSE



KenGen was named Africa's Power Utility Company of the year in April 2015

During the year, KenGen was recognized for Best Practice Board Diversity Award for efforts geared towards board diversity. In these 2015 awards NSE recognizes listed companies that promote diversity. This year's event took place in during which the winners were awarded recognition certificates.

The diversity agenda is critical for the long term sustainability of our Company.

#### 5. Rising Star Award - Construction, Energy and Chemicals category



Nimo Hussein (left) receives the Rising Star Award from the KenGen Managing Director & CEO, Eng. Albert Mugo as a participant looks on.

Two KenGen employees were recognised as part of the Rising Star Programme which was established for the purposes of recognising, celebrating and connecting young talented people in the corporate business world who have a capacity for achievement and success, great leadership skills, and who contribute in an inspirational manner to the future of the nation.

The Rising Star Programme aims to be a significant and sustainable vehicle through which organisations, our country and our continent can identify and nurture these "organisational and national assets" who are set to play a key role in shaping the future.

Using a new and innovative approach, the Rising Star Programme seeks to establish a community of young Kenyan talents that will be developed, mentored and provided with platforms for development and communication, enabling them to become role models, opinion leaders and on inspiration to other future talents.

#### 6. Employee Motivation and Retention by the Institute of Human Resource Management

KenGen's quest for professionalism and HR management excellence and implementation of best practice earned it recognition, from the Institute of Human Resource Management (IHRM).

The 2013 HR Index awards saw KenGen emerge as the overall winner of the HR Award for Best Human Resources Practices in the Public Sector Category. The company earned top awards in four other categories in the following areas; Innovation & Technology, Communication

## Our Strategic Direction

Effectiveness, Employee Motivation & Retention and Employee Wellness.

KenGen was voted the overall winner in the public sector, but also bagged other awards including Employee Wellness award, Technology award, Communication Effectiveness award, as well as Employee Motivation and Retention award.

KenGen has put in place good policies for employees with key issues like compensation, salary reviews, commendation letters and trainings at the core. As such, all our power generating plants including Turkwel, Olkaria, Kipevu and Masinga are fully equipped with facilities like staff houses, sporting facilities, a club house, and hosts events like family days, medical talks among others. Appraisals form the basis for rewarding employees.

### Succession Planning

KenGen leadership clearly acknowledges that the path to success begins with its people. The company addresses human resource needs through competitive recruitment and has created a meritocratic, transparent promotion and succession planning process to manage talent across the entire organization. There was a 9% increase in the number of staff to meet the enhanced staff requirements occasioned by an aggressive geothermal expansion programs. This was necessary to enable the Company to realize its mandate of providing reliable, safe, quality, clean, renewable and affordable electricity to the nation.

As the Company embarks on Horizon II journey of the strategy, it has reviewed the corporate structure resulting in the creation of three key directorates, namely, Geothermal Development Strategy & Business Performance and Supply Chain. These directorates seek to enhance the achievement of corporate objectives focusing on capacity expansion through enhanced geothermal resource. This has strengthened the strategic alignment of the business as a whole and de-centralized decision making.

The Company is equally committed to motivating and rewarding the workforce through various employee-friendly initiatives as a retention strategy. This is in realization of the need to socially empower employees and enhance commitment.

	2015	2014	Change
Operational Staff	1,638	1,416	16%
Projects staff	769	793	-3%
<b>Total</b>	<b>2,407</b>	<b>2,209</b>	<b>9%</b>
Management Staff	1,403	1,221	15%
Union Staff	1,004	988	2%
<b>Total</b>	<b>2,407</b>	<b>2,209</b>	<b>9%</b>
Male	1,948	1,793	9%
Female	459	416	10%
<b>Total</b>	<b>2,407</b>	<b>2,209</b>	<b>9%</b>

Operational Staff



68%

Projects Staff



32%

Management Staff



58%

Union Staff



42%

Male



81%

Female



19%



### Organizational Governance

KenGen is committed to improving the organizational structure and governance to support the business strategy. The structures put in place ensure that corporate decisions are aligned with the corporate strategy. We are in compliance to the regulatory, industry and legal requirements relevant to the various professional trades in the Company. Periodic reviews and evaluations are conducted to assure continued compliance.

The human resources and administration policies and procedures facilitate continued staff professional membership and development. During the year under review, these policies were reviewed to respond to staff issues and needs, taking cognisance of the evolving vibrant young workforce to ensure alignment with the prevailing legal frameworks.

Over the years, the Company has enjoyed good industrial relations with the energy industry trade union. This has resulted in uninterrupted service to our customers. The Company continues to pursue harmonious industrial relations. During the year under review, KenGen negotiated, concluded and signed a Collective Bargaining Agreement (CBA) with the union for a two-year period covering 2015/2016. Other segments of employee relations within the organization largely remained amicable due to management commitment to live by the dictates of prevailing CBA and the human resources and administration policies and procedures.

The Company aims to reduce outstanding staff leave days which appear as a liability in our financial statements. The company has made it mandatory for staff to utilise outstanding leave days be taken on a rolling basis. To enhance uniformity and departmental planning across the Company, all staff leave anniversaries have been aligned to the financial year.

KenGen's corporate culture is anchored on the Company's core values of team work, integrity, professionalism and safety. During the year under review, the Company undertook a corporate culture Survey that highlighted areas of improvement. Dissemination of the outcomes were carried out across the Company and an implementation is ongoing. However, the quick wins that did not require significant financial outlays were implemented immediately.

To enhance and revamp the work environment, the Company has completed the construction and occupation of the Geothermal Office Complex in Olkaria. At the Head Office, the acquisition of more office space at the adjacent Retirement Benefit Scheme office block is intended to boost productivity, create more work space, and consolidate functions for smooth workflow and seamless operation. These have also created team synergies. The new offices conform to regulatory requirements such as disability mainstreaming.

The Company embraces the principle of work-life balance. In pursuit of this, a number of team events such as family fun days, sporting and team-building events were conducted. These events create a platform for bonding, coaching, mentoring and sharing best practices.

Various employee wellness programmes were also undertaken including regulatory Employee Assistance Programmes on HIV/AIDS and Alcohol and Drug Abuse.

In the journey towards compliance with constitutional requirements in ensuring equity, the Company is on course in mainstreaming gender and disability issues in all spheres of its operations.

### Planning and Budgeting

Delivery of Company strategy is dependent upon a robust planning and budgeting process. Annual planning is in four phases; top down planning, bottom up, budgeting and performance management. The process involves an annual performance review, identification of gaps and goal-setting at all levels. It links and aligns the strategic vision to day-to-day activities.

Annual planning process aims to develop activities, targets and allocate resources. Corporate goals are developed and cascaded across all functions. Activities are supported by a financial plan to facilitate execution. Performance agreements and scorecards are developed and signed off to enable an objective performance review and appraisal.

A strong performance management system has been put in place to ensure tracking and achieving ambitious yet realistic targets. Through this process, the leadership focuses on the company's actual performance against budgetary targets. KenGen is committed to promoting excellence in financial sustainability and fostering sound corporate governance.

## Our Strategic Direction

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### Innovation and Continuous Improvement

The Company promotes innovation and continual improvement for business growth and sustainability.

KenGen leadership has demonstrated its commitment to innovation by taking a leading role in facilitating the annual Good-to-Great Technical Seminar. The annual G2G Technical Seminars have provided a platform for sharing Innovative ideas. This has led to Innovation initiatives which are at different stages of implementation with some such as the Geothermal Spa in Olkaria completed. Staff are encouraged to continually innovate. An Innovation element forms part of key performance criteria across the company.

Some of the continual improvement efforts are anchored on ISO 9001 and ISO 14001 measurement, analysis and improvement platform. The leadership also approved appropriate training for improvement and excellence such as Lean Six Sigma. Information and Communication Technologies have also been embraced to support improvement. This includes planning to develop an Enterprise Content Management System which is an improvement from a Document Management System on the ERP Platform. The company has invested in internal broad-based communication platforms used to convey information.

### Technology

KenGen has leveraged technology to enhance the effectiveness of the organization's systems and processes. The Company consistently relies on top notch technical capacity of staff across board to tap into the immense, homegrown resources for operational solutions. Process automation has seen increased efficiency in payments, procurement, generation remote monitoring and early warning systems and plant, maintenance. These have been anchored on International Standardization Organization (ISO) systems.



# **SUSTAINABILITY:** “From Generation to Generation”



## Sustainability: “From Generation to Generation”

### Joint Statement from the Chairman and the Managing Director & CEO



Sustainability is anchored on our Good to Great Transformation strategy which aims to create value for future generations. Three key pillars form the foundation of our strategy. They are socio-investment, financial and environmental sustainability.



#### In Pursuit of the Future

Our investment in innovation, green energy, Clean Development Mechanism (CDM), ISO certification in quality and environment management systems, operational excellence and commitment to our stakeholders exemplify KenGen's rich sustainability agenda.

We are particularly proud of the recently commissioned flagship 280MW Olkaria geothermal project which has transformed the lives of ordinary Kenyans and its impact felt in every home across the country due to the drastic reduction in electricity bills. This has achieved KenGen's aim to displace the expensive thermal sources of power.

The KenGen Foundation has become our vehicle to drive our Corporate Social Investment (CSI) initiatives in a structured manner for a harmonious coexistence.

Our major resource that is the human capital is pivotal in the realization of our sustainability agenda. A motivated and inspired workforce operating in a conducive and safe work environment has subsequently yielded high productivity, exemplary performance and results. The annual G2G Technical seminar has offered a platform for ingenuity, operational excellence, sharing of KenGen's success stories and innovative ideas as we progress on our transformational journey.

With this sustainability report, we at KenGen seek to demonstrate awareness of our commitment to the sustainability agenda.

Our sustainability highlights include:

- More than 386 beneficiaries from our scholarship sponsorship programme, 284,000 trees planted in our conservation efforts in the country's water towers.
- Resettlement of more than 1,181 project-affected persons in Olkaria by purchasing 1,700 acres of land, building permanent homes and providing social amenities which included piped water, electricity connection, schools, churches, cattle dips, a cultural centre and a market.
- Paid over Sh3 billion in tax during the year to the tax collector.
- Became the first company in Kenya to earn revenue from Olkaria II unit 3 CDM of which 10 per cent of the funds received were used for construction of water facilities and classrooms within the Olkaria area.
- Built over 185 kilometres of standard bitumen roads as we open up remote areas.
- Recertification of the Company to ISO 9001:2004 on Quality Management Systems and 14001:2008 on Environment Management Systems.

# 2015 Highlights

Amount spent on CSI in 2015: Shs 298million

# Sustainability at KenGen

## Investing in Communities



Number of trees seedlings raised

**284,000**

## Resettlement Action Plan (RAP)



No. of persons resettled Naivasha

**1,181**

Acres of land covered

**1,700**

No. of permanent jobs created

**476**

No. of temporary jobs created

**1,800**

Houses built

**150**

## Employee Environment



Reported Accidents, Incidents and near Misses

**54**

Safety Weeks

**2**

Fire Marshalls trained

**157**

## Environmental Sustainability



No. of ESIA's

**3**

Rehabilitated land in the 280MW projects

**502,895 km<sup>2</sup>**

## Carbon Footprint Reduction

CDM projects

**6**

Certified emission reduction (CERs) earnings to date

**USD 2.7 million**

Certified emission reduction (CERs) earnings in 2015

**USD 1.1 million**



## Sustainability: “From Generation to Generation”

### KenGen’s Corporate Social Investment: Investing In Communities

#### Social Investment Sustainability

KenGen undertakes social investments in its areas of operation and others parts of the country with a view to bringing about positive change and strengthening its relationship with various stakeholders, particularly communities. Key priority areas include water provision, health, famine relief, environmental conservation and education. These activities are carried out through the KenGen Foundation.

#### Education

KenGen remains passionate about contributing to the development of human resource capital in the country. Towards this end, the Company offers scholarships to bright and needy students and support infrastructural development in learning institutions. This has tremendously transformed and improved lives.

During the year, the Company awarded 18 scholarships to high school students and 18 to university students through the foundation. A similar number of beneficiaries graduated in both levels of education. From its inception in 2005 to date, the scholarship program has benefitted a total of 500 students.



KenGen MD & CEO (2nd left) and board chairman Joshua Choge hands over a cheque to scholarship to a beneficiary

In line with the Company’s unique policy of guaranteeing employment to students who attain First Class Honours degree, 10 such beneficiaries have been employed by the Company since 2005.

Additionally, the Company has introduced a mentorship program to counsel and mentor the scholarship

beneficiaries, moulding them to become responsible leaders.

#### CDM & CER Projects

The World Bank’s International Bank for Reconstruction and Development of the Community Development Carbon Fund (“CDCF”) and KenGen signed an agreement stating that one percent of the Carbon Emission Reduction (CER) revenues earned by KenGen would be channelled to the community projects.

Merila Primary School near Tana Power Station was one such a project to benefit from a Shs1.6 million allocation, following the registration of the 20MW Tana Redevelopment Project as an environmentally clean initiative under the Clean Development Mechanism (CDM). The school was registered as a CDM project on August 20, 2007.

Started in 1958, Merila Primary School with an acreage of 12.25 and a population of 200 pupils, 13 teachers is situated in Murang’a East Sub-County in Gikindu location. The funds will be used to rehabilitate the school’s infrastructure, water harvesting and set up a 1,000 seedling woodlot would also benefit from the funds. Implementation of the CSR and CDCF projects has acted as a catalyst for good community relations.

#### Resettlement Action Plan (RAP)

Setting up of Olkaria stakeholder and implementation of various Corporate Social Responsibility (CSR) and CDCF projects has given KenGen, a social license to operate and successfully implement a number of projects in the area. These projects include the Resettlement Action Plan (RAP), the 280MW geothermal power project and construction of 4 well-head units including OW 43, OW914, OW37 and OW915.

Three of the four CDCF projects were completed in the year. These included construction of a 10-kilometre water line for Maeilla community, the construction of three class rooms each for Nkaampani nursery school, and Oloirowua primary school as well as Olosingate water pan for Suswa community. This has led to an increase in school enrollment leading to an improvement in the quality of education in the two villages where the schools are situated. Women from Olorropil village where Olosingate water pan is situated are very excited since they no longer trek long distances to get water.

## Sustainability: “From Generation to Generation”

### Water and Sanitation

KenGen is committed to the provision of clean and safe drinking water and sanitation facilities to enhance the health of local communities. 293 staff enrolled for the Employee Giver Initiative to contribute to the innovative development of water harvesting, re-forestation and hand washing equipment to benefit schools and communities. KenGen also continued to monitor and update the social investments in water installations and earth/sand dams.



KenGen Operations Director Eng. Richard Nderitu assists residents of Kivaa draw water from a watering facility at the built for them by the Company

### Community Engagement

KenGen recognizes the important role communities play in facilitating smooth project implementation. The Company has also identified harmonious coexistence with the neighbouring communities as key to business success. This is realized through an all-inclusive and consultative approach. The Company has formed stakeholder coordination committees (SCC) in all operational areas. The Committees ensure that all key issues of concern are discussed with stakeholders and win-win solutions provided.

SCCs help improve communication, obtain wider community support or buy-in for projects, gather useful data and ideas to enhance corporate reputation while providing for more sustainable decision-making.

### Development of Social Amenities

The energy resources required by KenGen to develop power generating plants are located in remote parts of the country. To access these resources, KenGen in its various project execution programmes develops infrastructure

in the form of tarmac and all weather access roads, social amenities such as piped water, sand dams, social halls, water kiosks and grounds.

The Company implemented a number of social amenities during the year which include:

- A 15-kilometre water line for the Narasha-Iseneto community serving a population of over 25,000 people and over 50,000 livestock. This initiative is geared towards provision of accessibility to basic resources such as fresh water at close proximity to the community and their livestock;
- Construction of 5 classrooms for Iseneto Boarding Primary School.
- Donations of 10,000 litres water tanks for Maiella Township, Oloirowua primary school & Ndabibi Secondary School each.
- Donation of gutters and its accessories for Empash primary school for rain water harvesting.
- Recent repair of a 16 km Inkoirienito/Suswa road in collaboration with the Narok East Constituency office. The road is critical to the area since it connects several villages to their main market centre (Suswa Centre). These villages include; Narasha, Olomunyak, Olomayiana Kubwa, Nkaamapani, Iseneto and Oloirowua.

### KenGen Foundation, the Future of CSI

With the establishment of the KenGen Foundation in 2013, the company embarked on a more structured utilization of the Corporate Social Investment. The foundation is central to the company’s resource mobilization that enables long-term impact and sustainability of resultant projects. It is run by a Managing Trustee and is governed by a Board of Trustees.



KenGen completed and handed over Olkaria primary school as part of CSR

## Sustainability: “From Generation to Generation”

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The Foundation has developed its strategic plan that is aligned with the company's long-term CSR programmes. This plan is divided into four core pillars education, Environment, Water and Sanitation. It also supports selected projects in the following thematic areas: Economic Empowerment, Health, Sports, Culture and Humanitarian Aid.

KenGen operates in some of the most disadvantaged areas, and has had to contend with rising community expectations. As a result, the company has had to devise ways and means of scaling up its corporate social investment initiatives with a view to having a greater impact.

### Operational Sustainability

#### Quality Management ISO 9001: 2008 Recertification

KenGen maintained its focus on operational excellence with an emphasis on process improvement, development of operational standards, improved service delivery and quality audits across all functions. This is anchored on the ISO 9001: 2008 certification. KenGen successfully undertook recertification during the period.

Key staff were also trained on Lean Six Sigma to equip them with the capacity to conduct operational excellence initiatives in the new year.

The company is committed to minimizing operational waste and enhancing efficiency in order to add value to shareholders.

#### Safety and Health

Safety is one of KenGen's core values. The company is committed to providing and maintaining working conditions, equipment and systems of which are safe and healthy for all our stakeholders. Over and above the safety and health policy signed off by the MD and CEO, adequate resources have been provided to ensure that we have a safety and health culture. The company is aligning its occupational health and safety management system with International Standard for Occupational Health Safety Management System (OHSAS) ISO 18001. This standard provides a framework for effective management of OSH, including all aspects of risk management and legal compliance

It is compatible with ISO 9001 and ISO 14001 and the alignment provides assurance and evidence that our safety practices meet international standards.

#### Awareness and Training

During the year, 157 Fire Marshalls and 107 First Aiders were trained across the company. The Fire Marshalls and First Aiders were selected on the basis of cadre, gender and area representation. These two teams form area emergency response teams and conduct fire safety audits and emergency response drills at work.

The trainings were conducted by internationally certified trainers and included a visit to a well-equipped fire station for practical experience. This exposure prepared fire marshalls in terms of requisite knowledge regarding fire fighting techniques in response to fire incidents the organization.

KenGen continues to conduct safety awareness through various forms such as awareness sessions, mail shots and articles in the staff newsletter.

#### Safety Promotions and Campaigns

In order to inspire and strengthen the company safety culture, the organization regularly conducts participatory and social safety awareness programs also known as safety weeks. The safety weeks serve to re-energize a culture change upon which follow up is conducted over a period. The safety weeks were conducted Kipevu Power Station and Eastern Hydros Operational Area during the year.

Various teams conducted safety promotions on the World Safety Day whose theme was “Enhancing a safety culture”

#### Safety and Health Inspections and Audits

Internal and external audits are conducted to ensure that our equipment are fit for use, achieve regulatory compliance and ensure conducive work environment.

In the year, statutory inspections were conducted to ensure that major equipment such as lifts, lifting and fire equipment did not pose a danger to our staff and stakeholders. External audits were undertaken in all areas as scheduled. Over and above the statutory inspection and external audits, the company undertook internal inspections and audits. These were conducted by area health and safety committee members to ensure a safe and hazard free working environment.



## Sustainability: “From Generation to Generation”

### Business Continuity and Disaster Preparedness Planning (BCP/DRP)

KenGen is committed to minimal business disruption in the event of a disaster. The Managing Director and CEO appointed a Steering Committee to consolidate and structure the BCP/DRP initiatives across the company. KenGen benchmarked with organizations that have implemented Business Continuity and Disaster Response plans.

The organization has identified major risks, mitigation measures and gaps and compiled a matrix regarding the risks that could lead to business disruption.

### Emergency Preparedness and Response

As part of emergency preparedness and response planning, emergency drills were conducted as scheduled in key areas of operation.

## Environmental Performance

### Environment Conservation

KenGen has a responsibility to harness natural resources in a sustainable manner. The Company actively contributed to environmental programs aimed at conserving catchment areas. Efforts of greening and conserving the environment continued in various counties that host the Company’s installations.



*KenGen continuously engaged local communities in conservation efforts*

A major environmental programme aimed at conserving nature that enrolls primary schools in a tree planting competition continued to register progress. Known as the Green Initiative Challenge (GIC), the competition is aimed

at promoting sustainable use of resources and encouraging schools to come up with innovative ways of conserving the environment. The programme is intended to encourage environmental consciousness and conservation among school children right from an early age as a means to ensuring a sustained conservation action. Schools with the highest survival rate will be rewarded. To qualify, schools must have a designated plot of not less than a quarter of an acre set aside for tree planting. A total of 300 seedlings are supplied to the participating schools.

During the year, the program successfully engaged over 80 schools around the Eastern Hydros Operational Area. Participants developed small forests and woodlots in their school compounds. The tree species provided for the Eastern Hydros project were Cassia siamea and Melia volkensii, considered suitable for the dry, hot climate. A total of 24,584 seedlings were distributed among the competing schools for nurturing as they compete for prizes with wins based on growth rate, effort, innovation and creativity.

Following the overwhelming success of the GIC Pilot Phase 1, KenGen is now at an advanced stage of launching Phase 2 of an expanded GIC program with like-minded partners including Bamburi Cement and Better Globe Forestry, a not-for-profit organization. The project will be replicated in other areas of operation in KenGen starting with Olkaria and Sondu Miriu. The expansion targets the greening of a total 460 acres with 324,300 tree seedlings as well as 113,956 passion and pawpaw seedlings on approximately 460 acres. The overall GIC program, which is spread over the next eight years, will target more than 900 schools.

### Environmental and Social Impact Assessment (ESIA) Studies

KenGen continues to mitigate its environmental and social impacts by undertaking Environmental and social impact assessments for all its new projects. ESIA studies were done for Olkaria I Unit 6, Olkaria V and Olkaria I rehabilitation projects and licences received from the National Environment Management Authority (NEMA).

### Strategic Environmental Assessment (SEA)

Strategic Environmental Assessments (SEA) is aimed at providing a high-level of environmental protection and promoting environmentally sustainable development by integrating environmental concerns into specific plans and

## Sustainability: “From Generation to Generation”

programmes. KenGen undertook the first ever SEA in Kenya.

The assessment was for geothermal development programs at Olkaria and Eburru in Nakuru County, for the period between 2012 and 2020. The draft SEA reports were publicly disclosed by NEMA for comments, discussed in a stakeholder validation workshop and unanimously endorsed for approval. This is a demonstration of KenGen's commitment to environmental sustainability.

### Environmental Rehabilitation and Conservation Activities

KenGen engages in rehabilitation and landscaping activities for disturbed sites as it develops new projects. The company also participates in conservation initiatives targeting wider catchment areas to ensure continuous availability of quality water and steam for sustainable operation of our power plants.

During the year, the company raised a total of 284,000 tree seedlings from its tree nurseries at Olkaria geothermal, Eastern and Western Hydro stations. Out of the raised seedlings, 23,000 were planted around KenGen facilities and the rest issued to schools and other institutions in support of social afforestation programs.

Rehabilitation of bare land affected by the Olkaria 280MW project continued covering an area of approximately 502,895 km<sup>2</sup> at a cost of over Shs15 million during the year. This involved rehabilitation and landscaping work around Olkaria I and IV power plants well pads, along steam pipelines, the main road and access roads within the steam field.

Areas affected by the Ngong wind projects were also restored. This included successful re-vegetation of access roads using labour from the local community. The upgrade of the access road is earmarked for 2016.

KenGen signed an MoU with The Nature Conservancy (TNC) to partner in conservation of the wider Upper Tana catchment area. The initiative which is registered as the Nairobi-Upper Tana Water Trust Fund (WTF), involves downstream water resource users contributing endowment funds for conservation of upper catchment areas as part of an ecosystem services payment model. The WTF was launched in March 2015 and KenGen was recognized and awarded for its participation in the business case study and conservation of the Upper Tana catchment area.

Further, KenGen as a key stakeholder participated in all Mau Stakeholders Forum and the IDH facilitated Initiative for Sustainable Landscape (ISLA) for SW Mau catchment for Sondu Miriu basin.

### Stakeholder Management

#### Stakeholder Mapping and Analysis

KenGen has embarked on a stakeholder mapping and analysis to fast track its engagement with its stakeholders.

One of the foremost examples of stakeholder management programs is KenGen's engagement with NEMA, Kenya Wildlife Service (KWS) and Nature Kenya to control environmental impacts associated with geothermal developments at the Hell's Gate National Park as stipulated in the KenGen-KWS MoU.

#### Stakeholder Coordination Committees (SCC)

The premise of SCC was to embrace a consultative approach with host communities domiciled within and around our areas of operation and project sites. KenGen places value in harmonious co-existence with communities and other stakeholders living in the neighbourhood of our facilities.

**Ngong SCC:** This SCC was officially launched during the year. Implementation of CSI projects for Ngong agreed on with the community are on course. These include two classrooms at Nalepo Primary School and a contractor has also been procured to drill 2 boreholes commencing early 2016 for the local community and the school.



KenGen officials present a cheque to the headteacher of Nalepo Primary School, Ngong

**Olkaria SCC for 280MW Projects:** The SCC was dissolved upon attainment of its objectives which coincided with the commissioning of the 280MW Olkaria I and IV projects.

**Proposed SCCs:** The stakeholder mapping and analysis for up-coming Olkaria V, Olkaria I AU 6, Wellheads, Sondu Miriu and Industrial Park projects has been completed. The appointment of SCC members is in progress.

### Olkaria IV Resettlement Action Plan (RAP)

The Resettlement Action Plan (RAP) is a new structured approach to managing physical and economic displacement of project affected persons (PAPs) with life changing social and economic benefits which take cognisance of the growing and dynamic needs of communities

The enormity of the 280MW mega project behoved of KenGen to conceptualise a different approach and a radical shift from its previous resettlement plans. The RAP model, one of KenGen’s hallmark of maturity in resettlement programs, is the culmination of this radical shift. KenGen takes pride in the RAP project which is billed by the World Bank as Africa’s most successful relocation project and is being showcased across the globe.

For this Olkaria IV RAP project, KenGen as a responsible corporate citizen purchased 1,700 acres of land to settle 1,181 PAPs. On this land KenGen constructed modern residential houses for 150 households modern school, a dispensary, churches, cattle dips and watering troughs and a community social hall. Further, electricity and water was provided in addition to supporting road network. The PAPs were successfully relocated by KenGen on August 2014.



Pastor Nkamasian and his family pose next to their new two-bedroomed home at the KenGen Olkaria RAP site

### Statutory Environmental Health and Safety Audits

#### External EHS Audits by Electricity Regulatory Commission (ERC)

The Electricity Regulatory Commission carried out statutory environmental, health and safety audits of Embakasi GT, Sondu hydropower plant and Olkaria geothermal plants. The facilities audited performed above 70% on the ERC’s scorecard. The corrective action plans (CAPs) for implementation and subsequent follow-up were prepared and submitted to ERC.

#### Internal Environmental Audits

KenGen is committed to surpassing statutory obligations in monitoring and conserving the environment. The company conducted statutory annual environmental audits for all its facilities. The reports were submitted to NEMA and no improvement orders were received.

#### Mitigations Monitoring Programmes

In addition to the statutory audits, implementation of environmental and social management plans (ESMP) were undertaken for Ngong wind and 280MW Olkaria I & IV projects. Quarterly ESMP implementation status reports were submitted to the project financiers as scheduled.

ESMP implementation monitoring were conducted for all KenGen operating power plants and associated facilities and performance reports prepared. Implementation of areas of improvement were tracked to ensure closure.

#### Environmental Incidences

No major environmental incidences were recorded during the year.

### Carbon Assets Development

KenGen has registered six Clean Development Mechanism (CDM) projects with a potential emission reduction of 1.5 million tCO<sub>2</sub>e /year. The current KenGen carbon credit portfolio includes; three geothermal power plants, two hydro power plants and one wind farm. The registered projects are at different stages of monitoring, reporting and verification (MRV). The emission reductions must be verified before certification using methodologies and procedures set by the Clean Development Mechanism (CDM) Executive Board of the United Nations Framework Convention on Climate Change (UNFCCC). Three of the projects have undergone successful verification and

## Sustainability: “From Generation to Generation”

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issuance of about 300,000 tCO<sub>2</sub>e of certified emission reduction (CERs) earning KenGen a gross revenue of about USD 2.7 million between 2013 and 2015.

About USD 1.1 million of this revenue was realised in the year 2015 from Olkaria II Unit 3, Optimization of Kiambere and Redevelopment of Tana Clean Development Mechanism (CDM) projects.

The recently commissioned 280MW Olkaria I & IV geothermal and 5.1MW Ngong Wind energy projects are undergoing their first monitoring and expected to reduce about 1.2 million tCO<sub>2</sub>e upon successful verification and issuance.

### Sustainability Projects under Clean Development Mechanism (CDM)

The twin objective of the CDM is to reduce greenhouse gas emissions and ensure sustainable development. To date, KenGen has successfully implemented four community projects in education and water in Olkaria, and is in the process of constructing another water project for the Ngurunga Community in Kiambere and rehabilitating Merilla Primary School near Tana hydropower CDM project. The Kiambere water project is expected to benefit 600 residents and support about 1,000 domestic animals, in addition to reducing crocodile attacks.

Rehabilitation of Merilla Primary School was selected by stakeholders among other projects because it had the highest positive impacts on; improvement of learning environment, sanitation conditions, reduction of jigger infestation and forestry. Agro-forestry will be carried out to support the school lunch program with the aim of improving academic performance.

The community projects are implemented under the Community Development Carbon Fund (CDCF), which is managed by the World Bank Carbon Finance Unit in close collaboration with KenGen. The projects are expected to enhance the lives and livelihoods of communities around our CDM projects. The CDCF has pledged to give KenGen an additional USD 50,000 for more projects under the Redevelopment of Tana hydropower CDM project. If successfully issued with CERs in the next financial year, KenGen's Olkaria II Unit 3 geothermal energy CDM project is expected to generate additional revenue for another community project.

During the year, KenGen held two sustainability training programs for the community project beneficiaries in Seven

Forks and Olkaria to ensure proper management of the projects after the hand over.

The 280MW Olkaria I & IV CDM projects were not registered under the CDCF but have made significant contribution to community development under Corporate Social Investment (CSI) and Olkaria IV Resettlement Action Plan (RAP). The 280MW projects have also reduced dependency on hydro and fossil-fuel based power production resulting in an overall reduction in tariff by about 30 percent in March 2015 compared to August 2014. The reduction in tariff has increased profit margins for businesses with significant impacts realized in small and medium enterprises (SMEs). Additionally, it is estimated that the project created over 476 permanent jobs and over 1,800 temporary jobs during its construction. The project also created opportunities for self-employment.

### The Future Outlook

With the end of the Emission Reduction Purchase Agreements (ERPAs) managed by the World Bank, all registered KenGen CDM projects will not have ERPAs or buyers, hence the need for new buyers and alternative markets. The CER spot market remained below USD 1.00 from December 2012. To stay in the market, KenGen intends to undertake several initiatives.

### Voluntary Markets

KenGen intends to venture into market mechanisms outside the Kyoto Protocol and plans to register the 6.8MW and 13.6MW wind energy farms under the Gold Standards in the voluntary carbon markets, and Olkaria V geothermal energy project under the Japanese Joint Credit Mechanism (JCM).

### Derivatives Market at the Nairobi Securities Exchange (NSE)

On 19 December 2014, the NSE received a license for the establishment and operation of a derivatives exchange from the Capital Markets Authority, pursuant to Section 36A of the Capital Markets Act and Capital Markets (Futures Exchange, Licensing Requirement) Regulations 2013.

This approval has enabled NSE to proceed with the establishment of a derivatives exchange for spot and futures trading of multi-asset classes including equities, currency, interest rate products as well as varied forms of agricultural commodities and contracts. The derivatives market will cater for all products and therefore offer an

## Sustainability: “From Generation to Generation”

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excellent opportunity for KenGen to trade its CERs/VERs and other products.

To this end, KenGen is working closely with the NSE to develop a platform for trading CERs/VERs under the proposed derivatives market. The CERs/VERs trading platform will stimulate national and international emission trading with financial and global emission reduction benefits, and will be the first of its kind in the region.

### New Climate Change Regime

A new climate change policy is expected to be launched in December 2015 in Paris. The new policy is expected to be effective in 2020. The focus policy among other instruments is the intended nationally determined contributions (INDCs). All countries that have ratified the UNFCCC convention are expected to submit an INDC. Kenya is a signatory to the UNFCCC convention.

Under the new Climate Change Regime, Kenya as a non-Least Developed Country (LDC) is expected to take emission reduction targets at the domestic level. The country in its INDC has proposed to take a target of greenhouse gas (GHG) abatement of 30% from business as usual (BAU) Scenario, based on 2010 emissions (2010 being the baseline year).

Based on the Vision 2030 energy flagship projects, and as discussed in the National Climate Change Action Plan, and the Second National Communication, the expected abatement potential (cumulative) from the energy sector is 18.63 MTCO<sub>2e</sub>. However after deliberations, this was reduced to 9.3 MTCO<sub>2e</sub> by 2030. Most of this abatement is expected to come from geothermal energy sector. The 9.3 MTCO<sub>2e</sub> will be distributed to all geothermal companies based on project pipeline.

Most of KenGen's renewable energy projects and others are expected to contribute to the national emission reduction target, and also lead Kenya to a low carbon development pathway by 2030. As a result, KenGen will develop a climate change policy in line with the new national and international requirements in readiness for compliance.

### The Carbon Asset Development Centre

KenGen is in the process of establishing a carbon asset development centre. The centre is expected to be a “one stop shop” resource centre on climate change issues related to renewable energy projects and sustainability.

## Sustainability: “From Generation to Generation”

### Risk Management

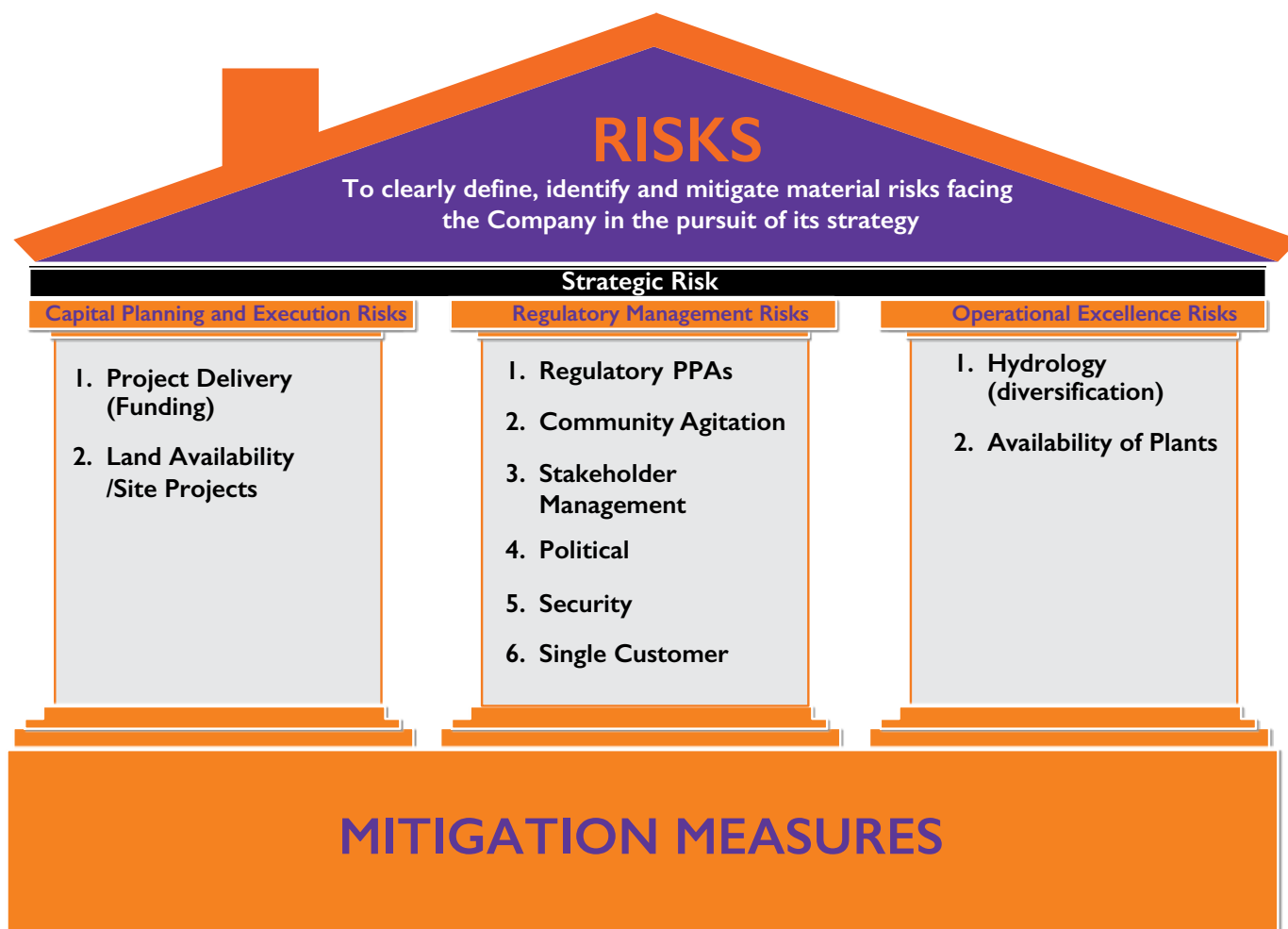
Risk is about the effect of uncertainty on objectives and therefore a clearly defined, time-based objective is crucial to successful risk management. An enterprise risk focus is not intended to identify every risk facing an organisation but those that are significant to its ability to achieve and realise its core business strategy and objectives supporting value creation.

Continuous scanning of the external and internal environment in which we operate allows for the identification of emerging events or risks that may pose opportunities or threats to our current and future business. To fully comprehend the complexity of our enterprise risk profile, it is important to recognise that our environment is dynamic, posing challenges, threats and opportunities, and to acknowledge the integrated risk landscape in which KenGen's management is responsible for managing our risk and resilience in order to provide greater security for our employees, our customers and other stakeholders.

### Strategic Risk

This gives management and the Board a robust and holistic top-down view of key risks facing the organisation. This makes it possible to manage those risks strategically and to increase the likelihood of objectives being achieved. Enterprise risks are one or a combination of the following:

- Risks emanating from external factors, such as climate change, and/or enterprise events that are strategic challenges which may affect our ability to achieve our objectives
- Risks associated with our ability to develop and execute strategy, achieve strategic objectives and build and protect value
- Business risks may not be recognised as material in any one division but occur across multiple divisions and, when integrated and aggregated, become significant and impact our objectives



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The key components of the corporate risk matrix and the associated mitigation measures are detailed below:

### Hydrology Risks

Unfavourable hydrological conditions adversely affect the generating capacity of the company and its revenues.

**Mitigation:** KenGen continues to engage relevant stakeholders for the establishment of hydro-risk mitigation fund to cushion the Company during periods of poor hydrological conditions such as LA NINA. Further, the Company is diversifying from hydro dependent generation to other modes with an emphasis on geothermal, wind and coal. Other mitigation measures adopted include proper reservoir management and expansion of storage capacity for Masinga reservoir.

### Regulatory Risks (Power Purchase Agreements)

KenGen operates in a regulated business environment. Changes in law and regulation can expose the company to risks that can result in increased operating costs ultimately compromising profitability.

**Mitigation:** The PPAs include clauses which address the regulatory risks. The Company negotiates effective PPAs that ensure full cost recovery and sustainability of its operations.

### Geothermal Steam Supply

The source of geothermal power is the steam trapped in the earth’s crust which is rechargeable from deep within the earth. Changes in geological formation underneath the earth’s surface can adversely affect steam supply from generation wells, impacting KenGen’s revenues.

**Mitigation:** KenGen continues to embark on an effective steam reservoir management system that ensures close monitoring and supervision of the steam pressures in the Olkaria geothermal reservoir. This provides timely and accurate information on the levels of steam depletion necessary for effective decision making, for example the drilling of new make-up wells to ensure continuous and adequate supply of steam to the plants.

### Competition

Competition is inevitable with growing energy demand and supply factors driven by national economic growth needs and a dynamic global business market.

**Mitigation:** KenGen is abundantly endowed with comparatively cheap geothermal resource in Olkaria. The

strategy is focused on harnessing of geothermal resource which provide both competitive and comparative edge over other players. In addition to the geothermal resource, the capacity expansion programmes for renewable energy resources such as wind and solar.

The Company is also seeking public private partnerships in order to create new business models and growth opportunities. The organization strives for operational excellence in all its activities to gain a competitive edge through optimizing business costs.

### Political Risks

The national policy agenda, through legislative changes, may adversely affect investments and Company operations. This could result in increased cost of doing business.

**Mitigation:** Through effective stakeholder management programmes, the Company is able to manage effects of legislation on its operations. KenGen is an active participant in the committee that is conducting the ongoing review of the National Energy Policy & Energy Bill which has taken into consideration sectoral changes in the Constitution

### Security Risks

Security risks pose a major threat to the country and power facilities which are strategic national assets.

**Mitigation:** KenGen has taken proactive measures to secure all its areas of operation through installation of physical barriers, CCTV surveillance systems, contracted security firms, companywide staff security awareness programmes and continually upgraded security communication protocol.

### Single Buyer Model

KenGen currently sells all its generated electric energy to a sole customer namely; Kenya Power. This is a major risk to the Company as any negative effect on Kenya Power’s financial health will adversely affect KenGen.

**Mitigation:** KenGen continues to lobby for the enactment of the Energy Bill into law whose provisions allow for the entry of more players to distribute power to retail customers, giving KenGen an option to sell bulk energy to multiple customers. The Act will provide for the establishment of an Independent system operator who will ensure economic merit order of power plant dispatch is strictly followed, thereby according KenGen a competitive edge.

## Sustainability: “From Generation to Generation”

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### Site Acquisition

KenGen capacity expansion programme requires additional land acquisition. This poses several challenges such as managing project affected persons (PAPs) and the high cost of land acquisition. PAPs make high compensation demands and may be unwilling to be relocated, which leads to delays in implementation of projects.

**Mitigation:** The Company to engage National Land Commission in acquiring land for power projects.

KenGen continues to proactively engage the communities in all project sites to ensure harmony during the projects life cycle.

The Company undertakes environmental and social impact assessments. The results of these form the basis for successful negotiations with the PAPs for relocation and compensation for land for development/expansion projects.

KenGen also, through its Corporate Social Investment programmes, supports the PAPs in various community and development activities to enhance stakeholder relations.

### Project Implementation Risks

Energy generation projects bear significant construction risks arising from delayed completion and commissioning. Factors beyond the control of KenGen and the EPC contractors may result in cost overruns and project delays.

**Mitigation:** KenGen procures experienced EPC contractors and consultants for all its projects.

The Company executes agreements that require the contractors to pay sufficient liquidated damages in the event of default.

### Inadequate Stakeholder Management

Inadequate management of stakeholders may lead to poor relations and adversely affect KenGen's operations and attainment of its objectives.

**Mitigation:** KenGen has put in place an efficient sustainable review and engagement mechanism aimed at enhancing its reputation and relationship with key stakeholders.

KenGen constantly participates in Corporate Social Investment programmes, as part of giving back to the community in areas of operation.

Regulatory & Corporate Affairs Division tasked with ensuring that all key stakeholders are engaged on a

continuous basis to protect Company interest.

### Business Continuity Management & Disaster Mitigation

Due to increased threats of disaster in the country, there is a need to ensure that the Company has in place an effective system of business continuity and disaster recovery management.

**Mitigation:** The Risk Management, Fraud & Forensics Section jointly with Regulatory Affairs Division is facilitating implementation of a business continuity management and disaster risk management system in the Company. This will ensure that the company has in place adequate measures that address risks that may adversely impact continued business operation and disaster recovery.

### Plant Availability Risks

The Company has continued to face plant availability and machine down time risks in its key power plants. Olkaria II, Eburru, Kipevu I, Gogo, Sosiani, Garissa have all been affected at various times. This has led to loss of generation revenues through penalties, capacity adjustments and lack of energy dispatch. These outages were caused by maintenance, fire and flooding risks. These outages have adversely affected KenGen's revenue and profitability in the current and previous years.

**Mitigation:** Plans for outsourcing supply of parts & servicing to equipment manufacturers.

Proper planning & strictly following machine maintenance programs.

Pro-active measures to be put in place to address outages caused by other factors such as fire, flooding etc.

### Liquidity Risk

Liquidity risk is the inability to meet its financial obligations.

**Mitigation:** The company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence.



## Sustainability: “From Generation to Generation”

The company monitors its risk to shortage of funds using a recurring liquidity planning tool. This tool considers the account receivables from Kenya Power, the Ministry of Energy & Petroleum and other debtors 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.

### Project Delivery (Funding) Risks

The Company needs substantial capital to finance its business plan and in particular the capacity expansion projects. The planned capacity addition under the various expansion programs between the years 2013-2018 is 1,760MW with an estimated cost of over US\$ 4.9 billion. The Company has engaged a financial arranger to advise KenGen on the optimal financing options. The ability to finance the capital expenditure plans is subject to a number of risks, contingencies and other factors, some of which are beyond the control of the Company, including tariff regulations, interest rates, borrowing or lending restrictions, insurance and other costs and the ability to obtain financing on acceptable terms. Further, the expansion plans are subject to a number of contingencies, including laws and regulations, government actions, delays in obtaining permits or approvals, global prices of crude oil and other fuels, accidents and natural calamities.

**Mitigation:** These risks are mitigated by KenGen by pursuing additional sources of funding through PPP arrangements to supplement its internally generated funds. This may also include raising project finance through capital markets by the issue of debt instruments.

### Government Policy

The draft Energy Policy may impact the Company's operations when it becomes law. The residual risks that may arise from the enactment of the law will have to be assessed and mitigation action put in place.

The national Government has also set out its priorities regarding the energy sector. Key among them is the acceleration of electricity production in the next few years to meet the growing demand for power and spur economic growth. KenGen, being the largest energy producer in Kenya and the market leader has a critical role in ensuring the attainment of this key national priority. This aggressive expansion plan has brought in the high risk of reduction in the Company's market share which needs a recovery plan.

**Mitigation:** The Company is represented in the committee and it is expected that its interests will be taken care of in the new legislation.

### Community Agitation

One of KenGen's key strategic objectives is project expansion to increase energy generation. This has often led to the displacement of humans and wildlife which has triggered hostility from local communities and key stakeholders/partners.

**Mitigation:** The Company is managing this risk by ensuring that costs related to community activism are embedded in project costs while community liaison officers have been hired in most areas. Stakeholder coordination committees have been set-up in major operational areas to handle this risk and key policies within the company are to be reviewed in line with the changes within the community.

# Shareholders Tour 2015

SHAREHOLDERS TOUR  
2015





2015



**KenGen**

*Energy for the nation.*

# **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2015**

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

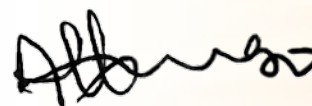


.....  
**Director**

**12 October 2015**



.....  
**Director**



.....  
**Director**

## STATEMENT BY COMPANY SECRETARY

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



**R. Miano, Company Secretary**

**Nairobi**

**12 October 2015**

# REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2015

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Electricity Generating Company Limited set out on pages 118 to 177, which comprise the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, have been audited on my behalf by Deloitte and Touché, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2015 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act, Cap 486 of the Laws of Kenya.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books and;
- (iii) The company's statement of financial position and the statement of profit or loss and other comprehensive income are in agreement with the books of account



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**12 October 2015**

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 Shs'000	2014 Shs'000
Revenue	4	25,602,038	17,423,771
Interest income	5	359,082	416,154
Other income	6(a)	624,585	650,896
		<b>26,585,705</b>	<b>18,490,821</b>
Other gains	7	41,317	67,119
Expenses	8	(14,926,351)	(11,812,473)
Finance costs	10	(3,010,659)	(2,587,519)
<b>PROFIT BEFORE TAXATION</b>	11	<b>8,690,012</b>	<b>4,157,948</b>
Taxation credit/(charge)	12(a)	2,827,315	(1,331,625)
<b>PROFIT FOR THE YEAR</b>		<b>11,517,327</b>	<b>2,826,323</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Remeasurement of defined benefit obligation	28	214,462	1,694,999
Deferred tax relating to remeasurement of defined benefit obligation	29	(64,339)	(508,500)
		150,123	1,186,499
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net gain/ (losses) on revaluation of available-for-sale treasury bonds	18(b)	2,270	(164,774)
Cumulative loss reclassified from equity on disposal of available-for-sale treasury bonds	18(c)	51,314	222,126
		53,584	57,352
Surplus on revaluation of Property, Plant and Equipment	14	75,786,865	-
Surplus on revaluation of Leasehold Land	15	1,417,033	-
Deferred tax on revaluation surplus	29	(23,161,169)	-
		54,042,729	-
<b>Other comprehensive income for the year, net of income tax</b>		<b>54,246,436</b>	<b>1,243,851</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>65,763,763</b>	<b>4,070,174</b>
<b>Earnings per share</b>			
<b>Basic and diluted(Shs)</b>	13	<b>5.24</b>	<b>1.29</b>



# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

		2015 Shs'000	2014 Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	305,378,764	209,235,821
Prepaid leases on land	15	3,223,658	1,048,372
Intangible assets	16	1,122,452	1,066,049
Amount due from Kenya Power-deferred debt	17(b)	965,266	1,084,900
Treasury bonds	18(a)	2,426,440	2,431,799
Recoverable foreign exchange adjustment	19	6,242,228	6,300,529
Retirement benefit asset	28	1,792,214	1,407,411
Total non-current assets		321,151,022	222,574,881
<b>Current assets</b>			
Inventories	20	899,076	788,333
Amount due from Kenya Power	17(a)	8,047,705	7,851,600
Other receivables	21	2,297,838	3,231,077
Amount due from Ministry of Energy & Petroleum	22	5,821,272	5,315,816
Treasury bonds	18 (a)	341,803	594,769
Recoverable foreign exchange adjustment	19	633,872	357,395
Amount due from Kenya Power-deferred debt	17(b)	35,100	62,295
Cash and bank balances	23(a)	3,292,307	9,429,358
Total current assets		21,368,973	27,630,643
<b>TOTAL ASSETS</b>		<b>342,519,995</b>	<b>250,205,524</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	24	5,495,904	5,495,904
Share premium	25(a)	5,039,818	5,039,818
Capital reserve	25(b)	8,579,722	8,579,722
Investments revaluation reserve	25(c)	(81,488)	(135,072)
Property, plant and equipment revaluation surplus reserve	25(d)	70,077,899	16,658,062
Retained earnings		52,482,236	41,071,239
Total Equity		141,594,091	76,709,673

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

		2015 Shs'000	2014 Shs'000
<b>EQUITY AND LIABILITIES (cont.)</b>			
<b>Non current liabilities</b>			
Borrowings	26(a)	117,039,768	122,324,111
Borrowings awaiting conversion to equity	26(d)	20,151,541	-
Operating lease liability	27(b)	-	1,000
Deferred tax liability	29	35,924,900	15,604,657
Trade and other payables	30	5,329,722	10,369,854
Total non-current liabilities		178,445,931	148,299,622
<b>Current liabilities</b>			
Borrowings due within one year	26(a)	9,427,225	13,790,779
Trade and other payables	30	7,623,617	6,300,740
Amount due to Kenya Power	17(c)	4,879	82,884
Operating lease liability	27(b)	1,000	2,000
Leave pay provision	31	293,251	231,334
Corporate tax payable	12(c)	394,827	668,859
Dividends payable	32(a)	4,735,174	4,119,633
Total current liabilities		22,479,973	25,196,229
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>342,519,995</b>	<b>250,205,524</b>

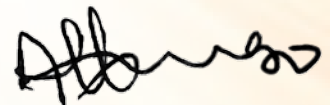
The financial statements on pages 118 to 177 were approved and authorised for issue by the board of directors on 12 October 2015 and were signed on its behalf by:



.....  
**Director**



.....  
**Director**



.....  
**Director**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Share capital Shs'000	Share premium Shs'000	Capital reserve Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Retained earnings Shs'000	Total Shs'000
<b>As at 1 July 2013</b>	<b>5,495,904</b>	<b>5,039,818</b>	<b>8,579,722</b>	<b>(192,424)</b>	<b>17,306,770</b>	<b>37,728,726</b>	<b>73,958,516</b>
Profit for the year	-	-	-	-	-	2,826,323	2,826,323
Other comprehensive income for the year	-	-	-	57,352	-	1,186,499	1,243,851
Total comprehensive income for the year	-	-	-	(57,352)	-	4,012,822	4,070,174
Transfer of excess depreciation	-	-	-	-	(926,000)	926,000	-
Deferred tax on revaluation surplus – current year	-	-	-	-	277,292	(277,292)	-
Dividend declared – 2013 (Note 32)	-	-	-	-	-	(1,319,017)	(1,319,017)
<b>At 30 June 2014</b>	<b>5,495,904</b>	<b>5,039,818</b>	<b>8,579,722</b>	<b>(135,072)</b>	<b>16,658,062</b>	<b>41,071,239</b>	<b>76,709,673</b>
<b>At 1 July 2014</b>	<b>5,495,904</b>	<b>5,039,818</b>	<b>8,579,722</b>	<b>(135,072)</b>	<b>16,658,062</b>	<b>41,071,239</b>	<b>76,709,673</b>
Profit for the year	-	-	-	-	-	11,517,327	11,517,327
Other comprehensive income for the year	-	-	-	53,584	54,042,729	150,123	54,246,436
Total comprehensive income for the year	-	-	-	53,584	54,042,729	11,667,450	65,763,763
Transfer of excess depreciation	-	-	-	-	(854,000)	854,000	-
Deferred tax on revaluation surplus – current year	-	-	-	-	231,108	(231,108)	-
Dividend declared – 2014 (Note 32)	-	-	-	-	-	(879,345)	(879,345)
<b>At 30 June 2015</b>	<b>5,495,904</b>	<b>5,039,818</b>	<b>8,579,722</b>	<b>(81,488)</b>	<b>70,077,899</b>	<b>52,482,236</b>	<b>141,594,091</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
	Note	Shs '000	Shs '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	33(a)	14,698,792	13,908,029
Income tax paid	12(c)	(351,982)	(67,979)
Interest received	33(b)	364,439	436,066
Interest paid	33(c)	(2,185,558)	(2,169,097)
Net cash generated by operating activities		<b>12,525,691</b>	<b>12,107,020</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	14	(27,231,523)	(61,084,354)
Purchase of prepaid leasehold land	15	(772,716)	(614,666)
Purchase of intangible assets	16	(129,771)	(53,646)
Proceeds from disposal of assets		15,632	2,641
Proceeds on sale/redemption of treasury bonds	18(c)	259,073	1,790,802
Net cash used in investing activities		<b>(27,859,305)</b>	<b>(59,959,223)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings	26(d)	(12,719,460)	(8,951,356)
Proceeds from borrowings	26(d)	26,981,206	57,830,817
Dividends paid to owners of the company	32	(263,804)	(395,705)
Net cash generated from financing activities		<b>13,997,942</b>	<b>48,483,756</b>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(1,335,672)	631,552
Cash and cash equivalents at the beginning of the year		4,627,979	3,996,427
Cash and cash equivalents at the end of the year	23(b)	<b>3,292,307</b>	<b>4,627,979</b>

## I. GENERAL INFORMATION

The company is incorporated and domiciled in Kenya under the Kenyan Companies Act. The company was incorporated in 1954 as Kenya Power Company Limited (KPC) and was under management of Kenya Power & Lighting Company (KPLC). In 1997, the management was separated from Kenya Power & Lighting Company Limited and the company was renamed to Kenya Electricity Generating Company Limited (KenGen) following the implementation of the reforms in the energy sector. Its core business is to develop, manage and operate power generation plants to supply electric power to the Kenyan market. The shares of the company are listed on the Nairobi Securities Exchange.

## 2. ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

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

#### (i) *New standards and amendments to published standards effective for the year ended 30 June 2015*

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

#### Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

#### IFRIC 21 Levies

IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

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

#### (i) *New standards and amendments to published standards effective for the year ended 30 June 2015* (Continued)

Amendments to IAS 36  
Recoverable Amount  
Disclosures for Non-Financial  
Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

As the Company does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

#### (ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2015*

*New and Amendments to standards*

IFRS 9  
IFRS 15 Revenue from contracts with customers  
Amendments to IFRS 11  
Amendments to IAS 16 and IAS 38

Effective for annual  
periods beginning on  
or after

1 January 2018  
1 January 2017  
1 January 2016  
1 January 2016

#### (iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015*

##### **IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

## 2 ACCOUNTING POLICIES (Continued)

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

#### (iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015 (Continued)

##### IFRS 9 Financial Instruments (Continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The directors of the Company do not anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

##### IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2 ACCOUNTING POLICIES (Continued)

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

##### (iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2015 (Continued)

###### **Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements.

###### **Annual Improvements 2010-2012 Cycle**

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

##### (iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2015.



## 2 ACCOUNTING POLICIES (Continued)

### Basis of preparation

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain assets.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities that an entity can access at a measurement date

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

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

The principal accounting policies are set out below.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must be met before revenue is recognised:

#### (i) Electricity sales

Electricity sales are recognised on the basis of available capacity and energy sold to the authorised distributor's transmission systems. The Power Purchase Agreements (PPAs) between the Kenya Power and the company stipulate that electricity sales will be agreed upfront on capacity and energy the company is going to produce and transmit during the year. Capacity charge is meant to accelerate the company's return on investments so it can focus on future expansion programs in building capacity to meet demand. Energy charge compensates for the electricity produced and sold to the distributor.

Revenue also includes realised foreign exchange adjustments as stipulated in the PPAs.

#### (ii) Interest

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### (iii) Rental income

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 2 ACCOUNTING POLICIES (Continued)

### Taxation

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

#### (i) Current tax

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

#### (ii) Deferred tax

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

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

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

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

### Employees' benefits

#### i) Retirement benefits obligations

The company operates a defined benefits scheme and a defined contributions scheme.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 2. ACCOUNTING POLICIES (Continued)

### Employees' benefits (Continued)

#### i) Retirement benefits obligations (continued)

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense or income and remeasurement.

The company presents the first two components of defined benefit costs in profit or loss in the line item of pension cost-defined benefit scheme (included in staff costs). Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

#### ii) Other entitlements

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

### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Plant and machinery class of property, plant and equipment are stated at valuation whereas the other classes of property, plant and equipment are stated at cost.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2. ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment (Continued)

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. Any increases arising on the revaluation of such plant and machinery is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed

A decrease in the carrying amount arising on the revaluation of such an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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 twenty five years from the date of commencement of commercial operation. The cost of unproductive wells is transferred to the profit or loss in the year in which they are certified complete but unproductive. Where a well ceases to be productive before the end of its expected useful life, the net book value of the well is charged to the profit or loss in the year it ceases to be productive.

#### Depreciation

Depreciation is calculated on the straight-line basis and is recognised so as to write off the cost or valuation of assets (other than freehold land and Work-in progress under construction) less their residual values over their useful lives, using the straight-line method.

The annual depreciation rates in use are:

Buildings	2.85%
Transmission lines	2.5%
Plant and machinery:	
- Hydro plants	2%
- Geothermal wells, wellheads and plants	4%
- Thermal plants and wind plants	5%
- Rigs	6.66%
Intake and tunnels	1%
Motor vehicles	25%
Furniture, equipment and fittings	12½%
Computers	25%

Freehold land is not depreciated and leasehold land is amortised over the lease period.

Residual value, useful life and depreciation methods are reviewed at least annually at the reporting date. Changes in the residual value and expected useful life are accounted for by changing the depreciation charge for the year, and treated as changes in accounting estimates.

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

## 2. ACCOUNTING POLICIES (Continued)

### Depreciation (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of the assets depends on the duration of the licences. 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 the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

### Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. ACCOUNTING POLICIES (Continued)

#### Impairment of tangible and intangible assets excluding goodwill (Continued)

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

#### Borrowing costs

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

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

Capitalised costs include interest charges and foreign currency exchange differences on borrowings for projects under construction to the extent that they are regarded as adjustments to interest rates.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Inventories

Inventories are valued at the lower of cost or 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.

#### Financial instruments

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

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

#### Financial assets

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

## 2. ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Held-to-maturity investments*

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

##### *Effective interest method*

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

##### *Available-for-sale financial assets*

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

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

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

##### *Loans and receivables*

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

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

##### *Impairment of financial assets*

At each reporting date, all financial assets are subject to review for impairment. If it is probable that the company will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans,

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through use of an allowance account. The amount of the loss incurred is dealt with through profit or loss for the period.

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

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

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

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

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

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.



## 2. ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

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

##### *Derecognition of financial assets*

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

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

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

### Financial liabilities and equity instruments

##### *Classification as debt or equity*

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

##### *Equity instruments*

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

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. ACCOUNTING POLICIES (Continued)

#### Financial liabilities and equity instruments (Continued)

##### *Financial liabilities*

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

##### *Other financial liabilities*

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

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

##### *Derecognition of financial liabilities*

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

#### Accounting for leases

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

##### *The company as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

##### *The company as lessee*

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

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

## 2. ACCOUNTING POLICIES (Continued)

### Dividends on ordinary shares

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

### Grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

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

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

### Foreign currencies

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. ACCOUNTING POLICIES (Continued)

#### Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to comply with IAS 19 Employee Benefits (as revised in 2011).

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

#### a) Critical judgements in applying the company's accounting policies

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

##### *Held-to-maturity financial assets*

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Sh 2,426 million (30 June 2014: Sh 2,432 million). Details of these assets are set out in note 18.

##### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

##### *Revaluation of power plants*

Power plants are stated at valuation. Revaluations are performed by professional valuers at sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. At the reporting date, the directors assess the carrying amount of revalued property, plant and equipment and apply judgement to determine that these do not differ materially from that which would be determined using fair values at 30 June 2015.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### *Classification of leases of land as finance or operating leases*

At the inception of each lease of land or building, the Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term; The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

#### **b) Key sources of estimation uncertainty**

##### *Useful lives of property, plant and equipment*

The company reviews the estimated useful lives of property, plant and equipment at the reporting date. The useful lives of the plants are then used in establishing the contracts that the company enters into under the Power Purchase Agreements.

##### *Impairment losses*

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

##### *Impairment of available-for-sale financial assets*

The company classifies certain assets as available-for-sale and recognises movements in their fair value through other comprehensive income. 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 the profit and loss account.

##### *Actuarial valuation of defined benefits plan*

The liability due under the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

### 4. REVENUE

#### Revenue by Tariff

Electricity sales:-

- Capacity charges revenue(note 4(a))
- Energy revenue(Note (4b))

Power Purchase Agreements' adjustments:

- Foreign currency adjustment payments

	2015 Shs'000	2014 Shs'000
	19,101,902	13,241,417
	6,205,882	3,655,354
	294,254	527,000
	<b>25,602,038</b>	<b>17,423,771</b>

## 4. REVENUE (Continued)

	2015 Shs'000		2014 Shs'000
<b>Electricity Revenue by Source</b>			
<b>a) Capacity Revenue</b>	<b>Existing Plants Shs'000</b>	<b>New Plants Shs'000</b>	<b>Total Shs'000</b>
<b>30 June 2015</b>			
Hydro	7,676,460	-	7,676,460
Geothermal	3,204,296	5,055,976	8,260,272
Thermal	3,165,170	-	3,165,170
	<b>14,045,926</b>	<b>5,055,976</b>	<b>19,101,902</b>
<b>30 June 2014</b>			
Hydro	7,578,958	-	7,578,958
Geothermal*	2,420,893	-	2,420,893
Thermal	3,241,566	-	3,241,566
	<b>13,241,417</b>	<b>-</b>	<b>13,241,417</b>
<b>b) Energy Revenue</b>	<b>Existing Plants Shs'000</b>	<b>New Plants Shs'000</b>	<b>Total Shs'000</b>
<b>30 June 2015</b>			
Hydro	1,367,981	-	1,367,981
Geothermal*	1,537,699	2,392,100	3,929,799
Thermal	601,908	-	601,908
Wind*	89,522	216,672	306,194
	<b>3,597,110</b>	<b>2,608,772</b>	<b>6,205,882</b>
<b>30 June 2014</b>			
Hydro	1,270,567	-	1,270,567
Geothermal*	1,268,923	209,074	1,477,997
Thermal	799,140	-	799,140
Wind	107,650	-	107,650
	<b>3,446,280</b>	<b>209,074</b>	<b>3,655,354</b>

\*New Plants include plants completed late last year and current year which comprises Olkaria 280MW, Wellheads 25MW and Ngong Wind 20.4MW.

## NOTES TO THE FINANCIAL STATEMENTS

### 5. INTEREST INCOME

Treasury bonds	
Other receivables	
Banks and other financial institutions	
Kenya Power	

	2015 Shs'000	2014 Shs'000
	283,290	349,208
	5,462	4,546
	39,865	8,179
	30,465	54,221
	<b>359,082</b>	<b>416,154</b>

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

Available-for-sale treasury bonds	
Held-to-maturity treasury bonds	
Loans and receivables (including cash and bank balances)	

	10,988	28,681
	272,302	320,527
	75,792	66,946
	<b>359,082</b>	<b>416,154</b>

### 6. OTHER INCOME

#### (a) Gain on disposal of property, plant and equipment

Insurance Compensation	
Miscellaneous income	
Net fuel pass-through (Note 6 (b))	
Revenue from Emergency Power Project (EPP)	
Carbon Credits	
Net Steam pass through (Note 6(d))	

	13,645	1,476
	300,439	54,950
	84,911	162,987
	109,167	271,996
	24,859	33,661
	91,564	125,840
	-	(14)
	<b>624,585</b>	<b>650,896</b>

#### (b) Net fuel pass-through<sup>1</sup>

Fuel pass-through revenue	
Fuel pass-through costs	

	7,238,204	13,142,391
	(7,129,037)	(12,870,395)
	<b>109,167</b>	<b>271,996</b>

#### (c) Net water charges pass-through<sup>2</sup>

Water charges pass-through revenue	
Water charges pass-through costs	

	375,341	459,722
	(375,341)	(459,722)
	-	-



## 6. OTHER INCOME (Continued)

### (a) Net Steam Revenue pass-through<sup>3</sup>

	2015 Shs'000	2014 Shs'000
Steam charges pass-through revenue	3,689,361	192,693
Steam charges pass-through costs	(3,689,361)	(192,707)
	<b>-</b>	<b>(14)</b>

<sup>1</sup>In line with the provisions of the Power Purchase Agreements, the company is reimbursed by Kenya Power for fuel costs incurred in the production of thermal electricity based on pre-agreed plant fuel usage. The net fuel pass-through income therefore represents the fuel usage efficiency which varies with working condition of the thermal power generating plants, because the machines are presently new. As the plants get old, the net fuel pass through is expected to be a charge to the income statement.

<sup>2</sup>The Water Resource Management Rules 2007 (Water Regulations) was Gazetted by the Government through legal notice No. 171 of September 2007. The regulation provided for water use charge at the rate of 0.05 Shs/ kWh for power plants with capacity of over 1MW. With approval from the Energy Regulatory Commission, the company is reimbursed by Kenya Power for the cost of water charges as a pass-through.

<sup>3</sup>In line with the provisions of the Power Purchase Agreements for mobile well heads, the company provides the feed in tariff of US cents 8.5 per kWh. The tariff is broken down in to US cents 2.0 per kWh payable to Geothermal Development Company Limited (GDC) which is the cost for geothermal steam. A capacity charge of US cents 5.5 per kWh is also charged to the company. The company charges Kenya power for the capacity and the GDC portion as a pass through cost.

## 7. OTHER GAINS AND LOSSES

	2015 Shs'000	2014 Shs'000
Foreign exchange gains on other monetary items excluding borrowings	46,676	85,877
Cumulative loss reclassified from equity on disposal of available-for-sale investments (note 18 (c))	(51,314)	(222,126)
Gain on disposal of available-for-sale investments (note 18 (c))	3,837	203,368
Capitalised losses on disposal of available-for-sale investments	47,477	-
Amortisation of held to maturity investments (note 18(b))	(5,359)	-
Unrealized foreign exchange gains on revaluation of borrowings (note 26(d))	(668,722)	(1,425,248)
Recoverable foreign exchange differences (note 19)	668,722	1,425,248
	<b>41,317</b>	<b>67,119</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 8. EXPENSES

a) Employee expenses (note 9)

b) Depreciation and Amortization

Depreciation (note 14)

Less: amount capitalized\*

Amortization - Prepaid leases on leasehold land\* (note 15)  
Less: amount capitalized\*

- Intangible assets- software (note 16)

	2015 Shs'000	2014 Shs'000
	<b>4,162,284</b>	<b>3,491,942</b>
	6,846,125	5,048,839
	(454,948)	(394,436)
	6,391,177	4,654,403
	14,463	6,251
	(63)	-
	14,400	6,251
	73,368	67,283
	<b>6,478,945</b>	<b>4,727,937</b>

\*The depreciation capitalised relate to depreciation for rigs used in well drilling were capitalised to the wells drilled as part of the cost of the wells.

c) Operating expenses

Plant operation and maintenance

Welfare and benefits

Training expenses

Insurance

Catchment preservation and dam maintenance

Transport and travelling costs

Consultants fees

Office expenses

Provision for bad debts

Impairment provision for capital projects

Legal and statutory expenses

Other costs

	2015 Shs'000	2014 Shs'000
	1,386,081	1,393,792
	346,238	341,304
	91,478	207,243
	661,107	464,873
	107,000	107,000
	391,560	418,805
	47,466	63,167
	264,110	158,954
	57,921	198,125
	482,281	-
	59,601	65,205
	390,279	174,126
	<b>4,285,122</b>	<b>3,592,594</b>
<b>Total Expenses (8a, 8b and 8c)</b>	<b>14,926,351</b>	<b>11,812,473</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9. STAFF COSTS

Salaries and wages	3,888,503	3,158,128
Leave pay allowance	124,778	42,940
Pension cost- defined benefit scheme (note 28)	(130,680)	32,198
Pension cost - defined contribution scheme	274,250	254,471
National Social Security Fund	5,433	4,205

2015 Shs'000	2014 Shs'000
3,888,503	3,158,128
124,778	42,940
(130,680)	32,198
274,250	254,471
5,433	4,205
<b>4,162,284</b>	<b>3,491,942</b>

The number of persons employed by the company at the yearend was

- Operational staff
- Geothermal Resource Assessment and Other projects staff

2015 Numbers	2014 Numbers
1,638	1,416
769	793
<b>2,407</b>	<b>2,209</b>

### 10. FINANCE COSTS

Interest on borrowings	4,856,825	4,299,088
Less: capitalised interest	(1,846,166)	(1,711,569)

2015 Shs'000	2014 Shs'000
4,856,825	4,299,088
(1,846,166)	(1,711,569)
<b>3,010,659</b>	<b>2,587,519</b>

### 11. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:		
Depreciation on property, plant and equipment (note 8(b))	6,391,177	4,654,403
Amortisation of intangible assets (note 8(b))	73,368	67,283
Amortisation of prepaid lease (note 8(b))	14,400	6,251
Directors' emoluments: fees - executive	-	-
- fees – non-executive (note 17(d))	6,000	6,000
- other emoluments executive	21,242	18,128
- other emoluments non-executive (note 17(d))	14,804	14,818
Auditor's remuneration	5,937	5,145
Operating lease rentals	198,182	85,079
Interest on borrowings (note 10)	3,010,659	2,587,519

6,391,177	4,654,403
73,368	67,283
14,400	6,251
-	-
6,000	6,000
21,242	18,128
14,804	14,818
5,937	5,145
198,182	85,079
3,010,659	2,587,519
<b>(359,082)</b>	<b>(416,154)</b>

And after crediting:		
Interest income (note 5)		

## NOTES TO THE FINANCIAL STATEMENTS

### 12. TAXATION

#### (a) Taxation (credit)/ charge

	2015 Shs'000	2014 Shs'000
Interest taxed as a separate source of income	77,950	73,104
Compensating tax	-	96,484
Deferred tax (credit)/ charge (note 29)	(2,905,165)	873,241
Prior year (over)/under provision - interest taxed as a separate source of income	-	288,796
Prior year over provision – deferred tax (note 29)	(100)	-
	<b>(2,827,315)</b>	<b>1,331,625</b>

#### (b) Reconciliation of expected tax based on profit before taxation to taxation (credit)/ charge

Profit before taxation	8,690,012	4,157,948
Tax applicable rate of 30%	2,607,004	1,247,384
Tax effect of income not subject to tax	(4,093)	(9,567)
Tax effect of capital allowances exceeding 100% of cost	(6,995,910)	(472,528)
Tax effect of expenses not deductible for tax purposes	1,565,784	181,055
Prior year under provision – interest taxed as a separate source of income	-	288,797
Prior year over provision – deferred tax (note 29)	(100)	-
Compensating tax	-	96,484
Total taxation (credit)/ charge	<b>(2,827,315)</b>	<b>1,331,625</b>

#### (c) Corporate tax movement

Balance brought forward	668,859	278,453
Interest taxed as a separate source of income (note 12(a))	77,950	73,104
Compensating tax (note 12(a))	-	96,484
Prior year under provision	-	288,797
Paid during the year	(351,982)	(67,979)
At end of the year	<b>394,827</b>	<b>668,859</b>

## 13. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

There were no potentially dilutive ordinary shares outstanding as at 30 June 2015 and 30 June 2014. Diluted earnings per share are therefore same as basic earnings per share.

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

	2015	2014
Profit attributable to ordinary shareholders for basic earnings (in Shs'000)	11,517,327	2,826,323
Number of ordinary shares in issue during the year used in the calculation	2,198,361,456	2,198,361,456
<b>Basic and diluted earnings per share</b>	<b>5.24</b>	<b>1.29</b>

#### 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and fittings Shs'000	Work-in-progress Shs'000	Total Shs'000
<b>COST OR VALUATION</b>							
At 1 July 2013	24,677,805	445,541	120,543,150	957,832	3,413,414	45,724,560	195,762,302
Additions	-	-	-	-	-	61,084,354	61,084,354
Transfers from WIP	343,264	293,571	3,031,936	461,368	308,807	(4,438,946)	-
Disposal	-	-	-	(7,558)	-	-	(7,558)
<b>At 30 June 2014</b>	<b>25,021,069</b>	<b>739,112</b>	<b>123,575,086</b>	<b>1,411,642</b>	<b>3,722,221</b>	<b>102,369,968</b>	<b>256,839,098</b>
At 1 July 2014	25,021,069	739,112	123,575,086	1,411,642	3,722,221	102,369,968	256,839,098
Additions	-	-	-	-	-	27,231,523	27,231,523
Depreciation capitalised	-	-	-	-	-	454,948	454,948
Transfers from WIP	13,553,746	1,724,124	45,786,574	151,441	518,924	(61,734,809)	-
Disposals	-	-	-	(87,890)	(16,919)	-	(104,809)
Impairment for capital projects	-	-	-	-	-	(482,281)	(482,281)
Revaluation adjustment	(4,407,001)	-	29,684,357	-	-	-	25,277,356
<b>At 30 June 2015</b>	<b>34,167,814</b>	<b>2,463,236</b>	<b>199,046,017</b>	<b>1,475,193</b>	<b>4,224,226</b>	<b>67,839,349</b>	<b>309,215,835</b>
Comprising							
At cost	38,574,815	2,463,236	135,215,158	1,475,193	3,849,904	67,839,349	249,417,655
At valuation 2015	(4,407,001)	-	29,684,357	-	-	-	25,277,356
At valuation 2005	-	-	34,146,502	-	374,322	-	34,520,824
<b>At 30 June 2014</b>	<b>6,053,748</b>	<b>34,154</b>	<b>33,697,261</b>	<b>650,170</b>	<b>2,125,498</b>	<b>-</b>	<b>42,560,831</b>
Charge for year	660,113	27,471	3,905,907	171,237	284,111	-	5,048,839
Disposal	-	-	-	(6,393)	-	-	(6,393)
<b>At 30 June 2014</b>	<b>6,713,861</b>	<b>61,625</b>	<b>37,603,168</b>	<b>815,014</b>	<b>2,409,609</b>	<b>-</b>	<b>47,603,277</b>

#### DEPRECIATION

At 1 July 2013  
 Charge for year  
 Disposal

At 30 June 2014

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold land and buildings Shs'000	Transmission lines Shs'000	Plant and machinery Shs'000	Motor vehicles Shs'000	Furniture, equipment and fittings Shs'000	Work-in-progress Shs'000	Total Shs'000
At 1 July 2014	6,713,861	61,625	37,603,168	815,014	2,409,609	-	47,603,277
Charge for year	937,085	108,107	5,255,395	193,886	351,652	-	6,846,125
Eliminated on disposal	-	-	-	(86,030)	(16,792)	-	(102,822)
Write back on revaluation	(7,650,946)	-	(42,858,563)	-	-	-	(50,509,509)
<b>At 30 June 2015</b>	<b>-</b>	<b>169,732</b>	<b>-</b>	<b>922,870</b>	<b>2,744,469</b>	<b>-</b>	<b>3,837,071</b>
<b>NET BOOK VALUE</b>							
<b>At 30 June 2015</b>	<b>34,167,814</b>	<b>2,293,504</b>	<b>199,046,017</b>	<b>552,323</b>	<b>1,479,757</b>	<b>67,839,349</b>	<b>305,378,764</b>
At 30 June 2014	18,307,208	677,487	85,971,918	596,628	1,312,612	102,369,968	209,235,821
<b>NET BOOK VALUE (COST BASIS)</b>							
<b>At 30 June 2015</b>	<b>30,760,863</b>	<b>2,293,504</b>	<b>104,631,644</b>	<b>552,323</b>	<b>1,480,093</b>	<b>67,839,349</b>	<b>207,557,776</b>
At 30 June 2014	18,144,202	677,487	61,409,992	596,628	1,312,612	102,369,967	184,510,888

## NOTES TO THE FINANCIAL STATEMENTS

### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Plant and machinery was revalued by independent valuers, Aon Global Risk valuers, as at 30 June 2015, on a depreciated replacement cost basis and represents the plant and machinery's highest and best use. The land and buildings was valued by Gimco Limited as at 31 December 2013. The valuation reports were adopted by the company in the financial statements for the year ended 30 June 2015.

The company land is located in the following locations:

Olkaria	Turkwel	Mesco
Gitaru	Sosiani	Garissa
Kiambere	Gogo	Lamu
Kamburu	Wanjii	Kipevu I and III
Kindaruma	Tana	Olkaria IV Domes
Masinga	Sagana	Sondu Miriu
Sangoro	Ndula	

### 15. LONGTERM LEASES ON LEASEHOLD LAND

	2015 Shs'000	2014 Shs'000
<b>COST</b>		
1 July	1,060,759	446,093
Additions	772,716	614,666
Revaluation adjustment*	1,390,183	-
30 June	<b>3,223,658</b>	<b>1,060,759</b>
<b>AMORTIZATION</b>		
1 July	12,387	6,136
Prepaid lease amortization for the year	14,463	6,251
Write back on revaluation*	(26,850)	-
30 June	<b>-</b>	<b>12,387</b>
<b>NET BOOK VALUE</b>		
30 June	<b>3,223,658</b>	<b>1,048,372</b>

\*Net revaluation

This relates to leases on land that is under use by the Company countrywide mainly hosting power plants. The leases carry different lease periods and lease amounts, depending on when the land was leased.

The land is leased from the Government of Kenya and other Government Agencies under renewable leases. The lease periods range from between 50 years to 999 years. Leases are renewed as they expire. Where leases have expired in the past, all have been renewed without any complications and no renewal complications are expected in the foreseeable future.

The Company's leasehold land was revalued by Gimco Limited, a firm of independent valuers, on the market value existing basis. The revaluation has been adopted in the financial statements.



## 16. INTANGIBLE ASSETS

	2015 Shs'000	2014 Shs'000
1 July	1,246,418	1,192,772
Additions	129,771	53,646
30 June	1,376,189	1,246,418
<b>AMORTIZATION</b>		
1 July	180,369	113,086
Charge for the year	73,368	67,283
	253,737	180,369
30 June	<b>1,122,452</b>	<b>1,066,049</b>

Intangible assets relate to costs incurred towards the installation of software. Amortisation has been charged on these assets from the time they became available for use.

## 17. RELATED PARTIES

The company is 70% owned by the Government of Kenya. The remaining 30% of the shares are widely held by the public. The Company's main related parties are the Government of Kenya - Ministry of Energy & Petroleum, Kenya Power and Lighting Company Limited (Kenya Power) and Geothermal Development Company Limited (GDC).

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

	2015 Shs'000	2014 Shs'000
(a) Amount due from Kenya Power	<b>8,047,705</b>	<b>7,851,600</b>
(b) Amount due from Kenya Power-deferred debt		
Current portion	35,100	62,295
Non-current portion	965,266	1,084,900
	<b>1,000,366</b>	<b>1,147,195</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 17. RELATED PARTIES (CONTINUED)

The amounts due from Kenya Power relate to outstanding balances at year end for sale of electricity.

The deferred debt from Kenya Power relates to the foreign component of project costs for land, other costs, transmission lines and substations on the Sondu Miriu project implemented by the company on behalf of Kenya Power under a management agreement. Japan Bank for International Corporation funded the foreign component of the Sondu Miriu project under the loan agreement between the Japan Bank for International Corporation, and the company. The debt of Shs 1,000,366,000 (2014: Shs 1,147,195,000) is payable over a duration of 30 years commencing on 15 August 2014 to 15 August 2043. The effective interest rate in Japanese Yen on the deferred debt during the year was 0.75% (2014: 0.75%).

The deferred debt and corresponding loan from Japan Bank for International Corporation are both denominated in Japanese Yen (JPY). The amount outstanding as at year end was JPY 1,254,061,339 (2014: JPY 1,320,013,268).

	2015 Shs'000	2014 Shs'000
(c) Amount due to Kenya Power	<b>4,879</b>	<b>82,884</b>

#### (d) Related party transactions

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party in making financial or operational decisions.

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

	2015 Shs'000	2014 Shs'000
(i) Electricity sales to Kenya Power	25,307,784	16,896,771
Foreign exchange recovery	294,254	527,000
Interest income on amounts due from Kenya Power	30,465	54,221
Fuel pass-through	7,238,204	13,142,391
Water charges pass-through	375,341	459,722
Steam charges pass-through	3,689,361	192,693
	<b>36,935,409</b>	<b>31,272,798</b>
(ii) Electricity purchases from Kenya Power	<b>343,155</b>	<b>311,856</b>

#### *Terms and conditions of transactions with related parties*

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

## 17. RELATED PARTIES (CONTINUED)

(d) Related party transactions (Continued)

	2015 Shs'000	2014 Shs'000
(iii) Staff advances	103,580	80,312

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

	2015 Shs'000	2014 Shs'000
(ii) Fees for services as a director		
Non-Executive Directors	6,000	6,000
Other emoluments		
Salaries and other short-term employment benefits:		
Executive Directors and key management	115,858	105,608
Non-Executive Directors	14,804	14,818
Total other emoluments	130,662	120,426
<b>Total</b>	<b>136,662</b>	<b>126,426</b>

## 18. TREASURY BONDS

(a) Analysis of treasury bonds

Available-for-sale treasury bonds carried at fair value	341,803	594,769
Held-to-maturity treasury bonds carried at amortised cost	2,426,440	2,431,799

	<b>2,768,243</b>	<b>3,026,568</b>
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Maturity analysis of treasury bonds		
- Within one year	341,803	594,769
- After five years	2,426,440	2,431,799

Less: current portion	2,768,243 (341,803)	3,026,568 (594,769)
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Non-current	<b>2,426,440</b>	<b>2,431,799</b>
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Weighted average interest rate	11.14%	11.14%
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## NOTES TO THE FINANCIAL STATEMENTS

### (b) Movement in treasury bonds

	Available-for-sale Shs'000	Held-to- maturity Shs'000	Total Shs'000
30 June 2015			
At 1 July 2014	594,769	2,431,799	3,026,568
Disposals	(255,236)	-	(255,236)
Fair value gain	2,270	-	2,270
Amortisation	-	(5,359)	(5,359)
<b>At 30 June 2015</b>	<b>341,803</b>	<b>2,426,440</b>	<b>2,768,243</b>
30 June 2014			
At 1 July 2013	2,550,345	2,436,683	4,987,028
Disposals	(1,790,802)	-	(1,790,802)
Fair value losses	(164,774)	-	(164,774)
Amortisation	-	(4,884)	(4,884)
<b>At 30 June 2014</b>	<b>594,769</b>	<b>2,431,799</b>	<b>3,026,568</b>

### (c) Loss on disposal of available-for-sale treasury bonds

	Cost Shs'000	Proceeds Shs'000	Losses on disposal Shs'000
30 June 2015			
Available-for-sale treasury bonds	306,550	259,073	47,477
Comprising:			
Cumulative loss reclassified from equity on disposal			51,314
Gain during the year			(3,837)
			<b>47,477</b>

## 18. TREASURY BONDS (CONTINUED)

(c) Loss on disposal of available-for-sale treasury bonds (Continued)

	Cost Shs'000	Proceeds Shs'000	Losses on disposal Shs'000
30 June 2014			
Available-for-sale treasury bonds	1,999,619	1,790,802	208,817
Comprising:			
Cumulative loss reclassified from equity on disposal			222,126
Gain during the year			(203,368)
			<b>18,758</b>

## 19. RECOVERABLE FOREIGN EXCHANGE ADJUSTMENT

Recoverable foreign exchange adjustment relates to unrealised exchange differences on foreign denominated borrowings recoverable from Kenya Power when realised. The Power Purchase Agreement ("PPA") with Kenya Power, allows the company to bill and recover all realised foreign currency fluctuations relative to the base rates allowed by the PPA. The amount in the statement of financial position relates to unrealised exchange differences arising on retranslation of borrowings at the reporting date which are recoverable from Kenya Power.

The movement in recoverable foreign exchange adjustment is as follows:

	2015 Shs'000	2014 Shs'000
At beginning of the year	6,657,924	5,576,996
Unrealised exchange gains in the year (note 26(d))	668,722	1,425,248
Realised exchange gains on loan repayment (note (26(d)))	(450,546)	(344,320)
<b>At the end of the year</b>	<b>6,876,100</b>	<b>6,657,924</b>
Less current portion	(633,872)	(357,395)
<b>Non-current portion</b>	<b>6,242,228</b>	<b>6,300,529</b>

## 20. INVENTORIES

Fuel	260,095	198,681
General stores	133,453	109,345
Machinery spares	505,528	480,307
	<b>899,076</b>	<b>788,333</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 21. OTHER RECEIVABLES

	2015 Shs'000	2014 Shs'000
Receivable from staff	91,518	68,648
Payments made on behalf of third parties*	163,251	95,471
Advance payments**	697,710	1,078,223
Other receivables and prepayments***	1,343,351	1,871,882
VAT recoverable	2,008	116,853
	<b>2,297,838</b>	<b>3,231,077</b>

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

\*\*Advance payments mainly relate to amounts paid to contractors and suppliers involved in the Olkaria I and Olkaria IV geothermal projects.

\*\*\*Included in other receivables and prepayments in the current year is an amount of Shs 569,072,498 relating to the funds for Olkaria I and IV projects received by National Treasury from the World Bank on behalf of KenGen.

None of these assets were past due or impaired at the reporting date.

### 22. Amount due from Ministry of Energy & Petroleum

	2015 Shs'000	2014 Shs'000
(a) Geothermal resource assessment funds As at 1 July and 30 June	1,466,146	1,466,146
(b) Geothermal Development Company Limited As at 1 July and 30 June	3,849,670	3,849,670
(c) Geothermal Exploration - Other Fields As at 1 July and 30 June Cost incurred on geothermal exploration fields taken over by GDC and accrued interest	505,456	-
	-	-
<b>Total Due</b>	<b>5,821,272</b>	<b>5,315,816</b>

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

## 23. CASH AND BANK BALANCES

- a) Analysis of bank and cash balances  
Cash and bank balances
- b) Cash and cash equivalents  
Cash and bank balances  
Bank overdrafts (note 26(d))

	2015 Shs'000	2014 Shs'000
	<b>3,292,307</b>	<b>9,429,358</b>
	3,292,307	9,429,358
	-	(4,801,379)
	<b>3,292,307</b>	<b>4,627,979</b>

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

## 24. ORDINARY SHARE CAPITAL

- Authorized ordinary shares  
Authorized par value(shs each)  
Authorized Share capital(Shs'000)
- Issued and fully paid shares  
Issued and paid par value (Shs each)  
Issued and fully paid up capital (Shs'000)

	2015	2014
	10,000,000,000	10,000,000,000
	2.50	2.50
	25,000,000	25,000,000
	2,198,361,436	2,198,361,436
	2.50	2.50
	5,495,904	5,495,904

## 25. NATURE AND PURPOSE OF RESERVES

- (a) The share premium arose as a result of the company taking over more assets than liabilities from the government during the Power Sector Reform Program in 2000. The capitalisation of the related excess was in the form of share capital issued at a premium.
- (b) The capital reserve relates to development surcharge received from Kenya Power for financing the development of certain power projects for the period 1997 and prior years. The reserve is not distributable to shareholders.
- (c) The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of. The reserve is not distributable to shareholders.
- (d) The property, plant and equipment revaluation reserve arises on the revaluation of plant and machinery. When revalued property, plant and equipment are disposed, the portion of the plant and machinery revaluation reserve that relates to that asset is transferred directly to retained earnings. The reserve is not distributable to shareholders.

## NOTES TO THE FINANCIAL STATEMENTS

### 26. BORROWINGS

#### (a) Analysis of interest bearing borrowings:

	Maturity Year	2015 Shs'000	2014 Shs'000
<b>Government of Kenya Guaranteed</b>			
2.6% Japan Bank for International Cooperation KE P20-Kipevu I (JPY 4,253,160,000)	2025	3,392,878	4,047,551
2.3% Japan Bank for International Cooperation KE P21 –Sundu Miriu (JPY 4,058,328,000)	2027	3,237,454	3,803,620
0.75% Japan Bank for International Cooperation KE P23-Sundu Miriu (JPY 10,034,870,001)	2044	8,005,127	8,980,963
0.75% Japan Bank for International Cooperation KE P24-Sangoro (approved JPY 5,620,000,000), (Disbursed JPY 4,312,811,135)	2047	3,440,463	3,685,820
0.20% Japan International Cooperation Agency KE P26-Olkaria I & IV (approved JPY 29,516,000,000), (Disbursed JPY 18,227,213,033)	2040	14,540,413	12,953,242
Kreditanstalt Fur Wiederaufbau (KfW)-Kindaruma (approved 1.5% Euro 30,000,000, 4.07% Euro 9,100,000; (Disbursed Euro 33,508,916)	2024	3,699,227	4,187,736
2.2% Kreditanstalt Fur Wiederaufbau (KfW)-Olkaria I & IV (approved Euro 60,000,000), (Disbursed Euro 44,065,608)	2026	4,864,636	4,683,412
<b>On lent</b>			
7.7% International Development Association IDA 2966KE-Olkaria II(USD 21,891,484)	2018	2,159,363	2,557,711
7.7% Kreditanstalt Fur Wiederaufbau - Olkaria II (Euro 371,141)	2018	40,972	57,047
4.5% International Development Association Credit IDA 3958KE-Olkaria II Unit 3(USD 18,824,045)	2025	1,856,792	1,831,333
1.5% KBC Bank loan (Belgium)-Ngong Wind Power (Euro 7,413,067)	2024	818,368	979,520
3.5% International Development Association IDA 4743 KE-Olkaria I & IV (USD 116,123,632)	2035	11,454,365	8,233,539
2.003% Agence Francaise de Developpement (AFD) - Olkaria I & IV (Euro 80,853,276.46)	2031	8,925,822	9,666,009
3.884% European Investment Bank-Olkaria I & IV (Euro 71,360,447.2 )	2037	7,877,858	8,531,141
2.50% Export-Import Bank of China (EXIM) - 80wells(USD277,447,670.78)	2033	27,367,272	16,219,476
1.50% Spanish loan-Ngong Phase II - 13.6MW (Euro 19,993,617)	2030	2,207,201	2,103,408
3.20% KBC Ngong I Phase II - 6.8MW (Euro 6,368,910)	2020	703,098	574,545
0.50% National Bank of Belgium (NBB) Ngong I Phase II - 6.8MW (Euro 6,078,000)	2043	670,983	665,051



## 26. BORROWINGS (CONTINUED)

### (a) Analysis of interest bearing borrowings: (Continued)

	Maturity Year	2015 Shs'000	2014 Shs'000
<b>Direct borrowings</b>			
2.68% Agence Francaise de Developement (AFD)- Olkaria II Unit 3 (Euro 15,000,000)	2024	1,655,929	1,992,500
5.1% HSBC Bank loan-Rigs (USD 30,411,780)	2024	2,999,800	2,689,319
12.5% Public Infrastructure Bond –Various projects(Shs)	2019	13,908,089	17,033,089
5.72% Standard Chartered Bank loan-EIB -Olkaria II Unit 3 (USD 38,918,890.85)	2021	3,838,936	3,410,342
7.02% CBA Term loan-- Wellheads 75MW (USD 100,000,000)	2027	9,863,940	8,762,690
Citibank NA short-term loan (Shs)	2014	-	1,200,000
Equity Bank Limited (Shs)	2014	-	1,200,000
Cooperative Bank Term Loan (Shs)	2022	7,000,000	-
<b>Overdrafts</b>			
Commercial bank of Africa Limited (Shs)	2014	-	642,502
Bank of Africa Limited (Shs)	2014	-	1,424,839
NIC Bank Limited (Shs)	2014	-	1,226,099
Kenya Commercial Bank Limited (Shs)	2014	-	1,507,939
		<b>144,528,986</b>	<b>134,850,443</b>
Accrued interest (note 33(c))		2,089,548	1,264,447
Less: Reclassified to borrowings awaiting to conversion to equity*		(20,151,541)	-
<b>Total borrowings</b>		<b>126,466,993</b>	<b>136,114,890</b>
Less: Amounts due within 12 months		(9,427,225)	(13,790,779)
<b>Non-current borrowings</b>		<b>117,039,768</b>	<b>122,324,111</b>
<b>(b) Borrowings maturity analysis:</b>			
Due within 1 year		9,427,225	13,790,779
Due between 1 and 2 years		15,251,670	12,508,615
Due between 2 and 5 years		20,373,605	21,195,786
Due after 5 years		81,414,493	88,619,710
		<b>126,466,993</b>	<b>136,114,890</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. BORROWINGS (Continued)

	2015 Shs'000	2014 Shs'000
<b>(c) Analysis of loans by currency:</b>		
Borrowings in US\$	51,710,082	43,704,409
Borrowings in JPY	32,616,334	33,471,195
Borrowings in EUR	19,142,939	33,440,371
Borrowings in Shs	22,997,638	25,498,915
<b>Total</b>	<b>126,466,993</b>	<b>136,114,890</b>
<b>(d) The movement in borrowings is as follows:</b>		
At beginning of the year	130,049,064	80,088,675
Received in the year	26,981,206	57,830,817
Repaid in the year	(12,719,460)	(8,951,356)
Realised exchange losses on repayment (note 19)	(450,546)	(344,320)
Unrealised exchange gain/(loss) in the year (note 19)	668,722	1,425,248
Reclassified to borrowings awaiting to conversion to equity*	(20,151,541)	-
<b>At the end of the year</b>	<b>124,377,445</b>	<b>130,049,064</b>
Add: accrued interest (note 33(c))	2,089,548	1,264,447
Add: bank overdrafts (noted 23(b))	-	4,801,379
<b>Total borrowings at the end of the year</b>	<b>126,466,993</b>	<b>136,114,890</b>

#### Securities:

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

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

\*The borrowings awaiting conversion to equity relate to borrowings on lent from the government which approval has been received to convert into equity after the rights issue later in the last quarter of 2015 calendar year

## 26. BORROWINGS (Continued)

### (e) World Bank financing credit line

- (i) The company received financial support from the World Bank Credit No. 3958-dated 4 August 2004 to support implementation of the Energy Sector Recovery Project. A portion of this is disbursed directly into a US Dollar denominated Special Account B operated by the company and summary information on transactions during the year is as follows:

	2015 Shs'000	2014 Shs'000
Balance at the beginning of the year	-	39,376
Amounts received during the year	-	13,254
Net interest expense	-	(13)
Expenditure during the year	-	(40,861)
Refunded to World Bank at Credit closure	-	(11,756)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

The Credit facility was closed on 30 September 2013. The unutilized balance of USD 136,400 (Shs 11,755,975) in the Special Account B was refunded to World Bank at the Credit closure.

- (ii) a) Designated Account B

The company received financial support from the World Bank Credit No. 4743- KE dated 1st October 2011 to support implementation of the Kenya Energy Expansion Project (KEEP). Summary information on transactions during the year is as follows:

	2015 Shs'000	2014 Shs'000
Balance at the beginning of the year	905,614	1,201,623
Amounts received during the year	1,562,619	2,318,332
Net interest expense	-	(2)
Transfers to project account	(1,900,496)	(2,614,339)
<b>Balance at the end of the year</b>	<b>567,737</b>	<b>905,614</b>

The closing balance shown above is included in loan balances and represents the balances outstanding on the World Bank funded designated Account No. 0810296571876 held at the Equity Bank Ltd.

As at 30 June 2015 Ksh 11,454,365,000 - US\$ 116,123,632 (2014: 8,233,539,000 – US\$ 93,961,316.31) had been disbursed under this credit line as disclosed in note 26(a). The disbursement to the special account has been expended in accordance with the intended purpose as specified in the loan agreement.

## NOTES TO THE FINANCIAL STATEMENTS

### 26. BORROWINGS (Continued)

#### (e) World Bank financing credit line (continued)

##### (ii) (b) Project Account

	2015 Shs'000	2014 Shs'000
Balance at the beginning of the year	60,562	498,415
Amounts received during the year	1,900,496	2,614,339
Net interest income/(expense)	20,404	(1,201)
Payments to Contractors	(1,397,180)	(3,050,991)
<b>Balance at the end of the year</b>	<b>584,282</b>	<b>60,562</b>

The closing balances shown above are included in Cash and Cash Equivalents and represent balances outstanding on the World Bank funded project Account No. 6563380114 held at the Commercial Bank of Africa.

### 27. OPERATING LEASE COMMITMENTS

#### (a) As lessee

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

	2015 Shs'000	2014 Shs'000
Within 1 year	59,241	32,873
After 1 year but not later than 5 years	128,087	65,745
	<b>187,328</b>	<b>98,618</b>

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

#### (b) As lessor

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

## 27. OPERATING LEASE COMMITMENTS (Continued)

The advance receipts have been accounted for as shown below:

(b) As lessor (continued)

	2015 Shs'000	2014 Shs'000
At beginning of year	3,000	5,000
After 1 year but not later than 5 years	(2,000)	(2,000)
	1,000	3,000
Less: current portion	(1,000)	(2,000)
Non-current portion	-	1,000
Maturity analysis of operating lease commitments as lessor:		
Within 1 year	1,000	2,000
After 1 year but not later than 5 years	-	1,000
	<b>1,000</b>	<b>3,000</b>

This amount is amortised annually to the income statement on a straight-line basis over the remaining lease period.

## 28. RETIREMENT BENEFITS

The company operated a joint defined benefit scheme with Kenya Power, which was funded by contributions from both the company and employees up to 31 December 1999.

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 2000. The scheme is administered by Alexander Forbes Financial Services (E.A) Limited while British-American Asset Managers and Co-optrust Investment Services Ltd act as Investment Managers for the DB Scheme.

Under the plan, the employees are entitled to retirement benefits of 3% of Final Pensionable Emoluments for Pensionable Service upto 1 January 2000 and 2% of Final Pensionable Emoluments for Pensionable Service after 1 January 2000 on attainment of a retirement age of 60 years. No other post-retirement benefits are provided to these employees.

The KenGen Staff Retirement Benefits Scheme (DB Scheme) is established under trust and was closed to new entrants and to future accrual of benefits with effect from 31 December 2011 in respect of members aged below 45 years. A new Defined Contribution Scheme, the KenGen Defined Contribution (DC Scheme) 2012 was established effective 1 January 2012, for all new eligible employees. All active in service members aged 45 years and over as at 31 December 2011 had an option to either remain in the DB scheme for future benefit accrual or join the new DC scheme. Some members have opted to join the new DC scheme for future benefit accrual while others opted to remain in the DB scheme. The DC scheme is administered by Alexander Forbes Financial Services (EA) while Stanlib Ltd and Old Mutual act as Investment Managers for the Scheme.

The company therefore only makes contributions to the DB scheme in respect of those members who opted to remain in the DB scheme. DB scheme member contributions are a fixed percentage of pay with the company responsible for the balance.

## NOTES TO THE FINANCIAL STATEMENTS

### 28. RETIREMENT BENEFITS

A valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2014 by M/S Alexander Forbes Financial Services EA Limited for statutory purposes. An actuarial valuation to fulfill the financial reporting and disclosure requirements of IAS19 was also carried out as at 30 June 2015. On this basis, the present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

	2015	2014
Discount rate(s)	13.25%	13%
Future salary increases	8%	8%
Future pension increases <sup>1</sup>	0%	0%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Mortality (pre-retirement)	n/a	n/a
Retirement age	60 years	60 years

<sup>1</sup> Increases of 3% per annum apply on pensions secured on pre 31 December 1999 (Kenya Power) service.

The amount recognised in the statement of profit or loss and other comprehensive income in respect of these defined benefit plan are as follows:

	2015 Shs'000	2014 Shs'000
Current service cost	51,513	(1,829)
Interest cost on defined benefit obligation	651,354	726,506
Interest income on plan assets	(833,547)	(692,479)
Components of defined benefits plan recognized in profit or loss	(130,680)	32,198
Actuarial gain obligation	(254,631)	(1,356,386)
Return on plan assets (excluding amount in interest cost)	40,169	(338,613)
Components of defined benefits plan recognized in other comprehensive income	(214,462)	(1,694,999)
<b>Total</b>	<b>(345,142)</b>	<b>(1,662,801)</b>

## 28. RETIREMENT BENEFITS (Continued)

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

	2015 Shs'000	2014 Shs'000
Present value of funded defined benefit obligation	5,302,855	5,114,694
Fair value of plan assets	(7,095,069)	(6,522,105)
<b>Present value of unfunded defined benefit (asset)/obligation</b>	<b>(1,792,214)</b>	<b>(1,407,411)</b>

The reconciliation of the amount included in the statement of financial position is as follows:

	2015 Shs'000	2014 Shs'000
Net liability at the start of the period	(1,407,411)	290,876
Net expense recognised in the income statement	(130,680)	32,198
Employer contributions	(39,661)	(35,486)
Amount recognized in other comprehensive income	(214,462)	(1,694,999)
<b>Present value of unfunded defined benefit (asset)/obligation</b>	<b>(1,792,214)</b>	<b>(1,407,411)</b>

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

	2015 Shs'000	2014 Shs'000
Opening defined benefit obligation	5,114,694	5,879,527
Current service cost	51,513	(1,829)
Interest cost	651,354	726,506
Contributions from plan participants	19,831	18,488
Actuarial gain due to change in assumptions	(254,631)	(212,813)
Actuarial gain due to experience	-	(1,143,573)
Benefits paid	(279,906)	(151,612)
<b>Closing defined benefit obligation</b>	<b>5,302,855</b>	<b>5,114,694</b>

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

	2015 Shs'000	2014 Shs'000
Opening fair value of plan assets	(6,522,105)	(5,588,651)
Interest income on plan assets	(833,547)	(692,479)
Contributions from the employer	(39,661)	(35,486)
Employee contributions	(19,831)	(18,488)
Benefits paid	279,906	151,612
Return on plan assets	40,169	(338,613)
<b>Closing fair value of plan assets</b>	<b>(7,095,069)</b>	<b>(6,522,105)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 28. RETIREMENT BENEFITS (Continued)

The fair values of the plan assets at the end of the reporting period for each category are as follows:

	2015 Shs'000	2014 Shs'000
Equity instruments	2,089,335	2,560,518
Debt instruments	294,111	323,189
Property Investments	4,478,380	3,495,377
Offshore investments	44,802	94,472
Fixed Deposits	33,685	-
Cash	154,756	48,549
<b>Total scheme assets</b>	<b>7,095,069</b>	<b>6,522,105</b>

### 29. DEFERRED TAX LIABILITY

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

	2015 Shs'000	2014 Shs'000
Deferred tax assets:		
Tax losses	(27,192,428)	(9,933,282)
Provisions for bad debt	(3,619)	(3,499)
Provision of write off of feasibility studies	(144,684)	-
Leave pay provision	(87,975)	(69,400)
Provision for staff gratuity	(5,782)	-
	<b>(27,434,488)</b>	<b>(10,006,181)</b>
Deferred tax liabilities:		
Defined benefit	537,664	422,223
Revaluation surplus	30,069,955	7,139,895
Accelerated capital allowances	32,737,430	18,033,894
Unrealised exchange gain	14,339	14,826
	63,359,388	25,610,838
<b>Net deferred tax liability</b>	<b>35,924,900</b>	<b>15,604,657</b>
Movement on the deferred tax account is as follows:		
At the beginning of the year	15,604,657	14,222,916
Deferred tax (credit)/ charge (note 12(a))	(2,905,165)	873,241
Deferred tax through other comprehensive income	64,339	508,500
Deferred tax passing through revaluation surplus	23,161,169	-
Prior year overprovision (note 12 (a))	(100)	-
<b>At the end of the year</b>	<b>35,924,900</b>	<b>15,604,657</b>



## 29. DEFERRED TAX LIABILITY (Continued)

The company's deferred tax balance includes deferred tax assets of KSh 27.2 billion related to accumulated tax losses available for offset against future profits. Kenyan tax laws now allow for tax losses to be carried forward for a maximum period of 4 years.

On 27 April 2015, the Cabinet Secretary for the National Treasury approved the extension of the 2010 tax losses carry forward for a further four years from 30 June 2014. This is in accordance with section 15(4A) of the Income Tax Cap 470.

## 30. TRADE AND OTHER PAYABLES

Trade payables  
Contract and Retention money  
Sundry payables

### Total trade and other payables

Non-current trade and other payables\*

### Current trade and other payables

	2015 Shs'000	2014 Shs'000
Trade payables	3,369,456	3,959,258
Contract and Retention money	5,274,217	10,383,919
Sundry payables	4,309,666	2,327,417
<b>Total trade and other payables</b>	<b>12,953,339</b>	<b>16,670,594</b>
Non-current trade and other payables*	(5,329,722)	(10,369,854)
<b>Current trade and other payables</b>	<b>7,623,617</b>	<b>6,300,740</b>

\* These liabilities relate to payments due to contractors for the ongoing construction of long-term assets. They are financed by the Development Finance Institutions (DFIs) and represents invoices that were under verification at the reporting dates. After the verification is complete, the amounts are settled by the DFI's directly to the contractors and the company assumes the liability as long term borrowing.

## 31. LEAVE PAY PROVISION

At beginning of the year  
Charge/(credit) to profit

### At close of the year

	2015 Shs'000	2014 Shs'000
At beginning of the year	231,334	252,429
Charge/(credit) to profit	61,917	(21,095)
<b>At close of the year</b>	<b>293,251</b>	<b>231,334</b>

## 32. DIVIDENDS

a) Dividend payable  
At beginning of the year  
Declared  
Paid during the year

### At end of the year

b) Dividend proposed

Proposed for approval at annual general meeting(not recognised as a liability)  
Proposed dividend per share in Shs

At beginning of the year	4,119,633	3,196,321
Declared	879,345	1,319,017
Paid during the year	(263,804)	(395,705)
<b>At end of the year</b>	<b>4,735,174</b>	<b>4,119,633</b>
b) Dividend proposed		
Proposed for approval at annual general meeting(not recognised as a liability)	1,428,935	879,345
Proposed dividend per share in Shs	0.65	0.40

## NOTES TO THE FINANCIAL STATEMENTS

### 33. NOTES TO THE STATEMENT OF CASH FLOWS

#### a) Reconciliation of operating profit to cash generated from operations

	2015 Shs'000	2014 Shs'000
Profit before taxation	8,690,012	4,157,948
<i>Adjustments for:</i>		
Depreciation (note 14)	6,391,177	5,048,839
Impairment provision for capital projects (note 14)	482,281	-
Prepaid lease expense (note 15)	14,463	6,251
Amortisation of intangible assets (note 16)	73,368	67,283
Interest income (note 33(b))	(359,082)	(416,154)
Interest expense (note 33(c))	3,010,659	2,587,519
Gain on disposal of assets (note 6(a))	(13,645)	(1,476)
Unrealised foreign exchange loss/Repayment related to amount due from Kenya Power-deferred debt	86,925	1,770
Net loss on derecognition of treasury bonds	47,477	201,320
Amortisation of held-to-maturity treasury bonds	5,359	4,884
Reduction in actuarial deficit arising from valuation of retirement benefit liability	(170,341)	(3,289)

#### **Operating profit before working capital changes**

**18,258,653**      **11,654,895**

#### Changes in working capital:

Increase in inventories	(110,743)	47,926
(Increase)/decrease in amounts due from Kenya Power	(136,201)	(1,664,851)
Decrease in other receivables	927,882	2,672,851
Increase in amount due from Ministry of Energy & Petroleum	(505,456)	-
(Decrease)/Increase in trade and other payables	(3,717,255)	1,219,855
(Decrease)/increase in amount due to Kenya Power	(78,005)	448
Decrease in operating lease liability	(2,000)	(2,000)
Increase/(decrease)increase in leave pay provision	61,917	(21,095)

#### **Cash generated from operations**

**14,698,792**      **13,908,029**

#### b) Movement in interest receivable

1 July	30,455	50,367
Interest income	359,082	416,154
Interest received	(364,439)	(436,066)

#### **30 June**

**25,098**      **30,455**

#### c) Movement in interest payable

1 July	(1,264,447)	(846,025)
Interest expense	(3,010,659)	(2,587,519)
Interest paid	2,185,558	2,169,097

#### **30 June**

**(2,089,548)**      **(1,264,447)**

## 34. EMERGENCY POWER PROJECT

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

	2015 Shs'000	2014 Shs'000
At the beginning of the year	60,079	243,237
Receipts from sale of electricity	2,690,767	4,999,690
Interest income	9,143	25,596
Expenditure during the year	(2,213,712)	(5,208,444)
<b>At end of the year</b>	<b>546,277</b>	<b>60,079</b>

The company earned Shs 24.859 million in the year (2014 - Shs 33.661 million) in relation to managing these projects. This revenue is disclosed under note 6 (a) of these financial statements.

## 35. CONTINGENT LIABILITIES

### I. Disputed tax penalties

On 12 August 2002, the Customs and Excise Department issued an assessment of Shs 22.2 million excise duty arising from electricity imported from Uganda between 1998 and 2001. The principal tax has since been settled in full except for penalties amounting to Shs 31 million. The company has petitioned the National Treasury for a waiver of the penalties and, in the opinion of the directors, no provision is required in the financial statements as the liability is not expected to crystallise.

### II. Letters of credit

Letters of credit signify commitment by the company to make payments to third parties for contracts entered into, generally relating to foreign payments. Outstanding letters of credit as at 30 June 2015 amounted to Shs 1.196 billion (30 June 2014 Shs: 1.186 billion).

### III. Disputed withholding tax

In 2014, Kenya Revenue Authority (KRA) performed a tax audit for the financial years 2009-2013. Subsequently KRA issued an assessment of Shs 975,848,686. The company objected to the assessment after which KRA issued a stand over notice pending resolution of matters in dispute. In the opinion of the directors no provision is required in the financial statements as the liability is not expected to crystallise.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. CAPITAL COMMITMENTS

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

	2015 Shs'000	2014 Shs'000
Authorised but not contracted for	136,550,759	117,332,419
Authorised and contracted for	15,428,962	30,591,152
	<b>151,979,721</b>	<b>147,923,571</b>

### 37. OPERATING SEGMENT INFORMATION

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

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

#### a) Reported revenue

All the company revenues were generated from an external customer.

#### b) Geographical areas

All the company operations, revenues and assets are based in Kenya.

#### c) Major customers

The company operates in a regulated industry; all its revenue is derived from one single external customer Kenya Power

#### Introduction and overview

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

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

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

## 38. FINANCIAL RISK MANAGEMENT (Continued)

### Risk Management Framework

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

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

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

#### (a) Market risks

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

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

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

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

#### i) Foreign currency risk

The company has transactional currency exposures. Such exposure arises when borrowings are revalued at the reporting date and also through purchases of goods and services that are done in currencies other than the local currency. The company has loans from multilateral donors, which are denominated in currencies other than the functional local currency. Loan payments are made by using the prevailing exchange rate as there is no forward currency contracts to eliminate the currency exposures. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

## NOTES TO THE FINANCIAL STATEMENTS

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### i) Foreign currency risk

The carrying amount of the company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting date is:

	Ksh Shs '000	Others Shs '000	Total Shs '000
<b>At 30 June 2015</b>			
<b>Financial assets</b>			
Amount due from Kenya Power – Deferred debt	-	1,000,366	1,000,366
Recoverable foreign exchange adjustment	-	6,876,100	6,876,100
Cash and cash equivalents*	1,140,940	2,151,367	3,292,307
	1,140,940	10,027,833	11,168,773
<b>Liabilities</b>			
Trade and other payables	(7,679,080)	(5,274,259)	(12,953,339)
Borrowings	(22,997,637)	(103,469,356)	(126,466,993)
	(30,676,717)	(108,743,615)	(139,420,332)
<b>Net currency liability</b>	<b>(29,535,777)</b>	<b>(98,715,782)</b>	<b>(128,251,559)</b>
<b>At 30 June 2014</b>			
<b>Financial assets</b>			
Amount due from Kenya Power – Deferred debt	-	1,147,194	1,147,194
Recoverable foreign exchange adjustment	-	6,657,923	6,657,923
Cash and cash equivalents*	574,887	8,854,471	9,429,358
	574,887	16,659,588	17,234,475
<b>Liabilities</b>			
Trade and other payables	(6,286,676)	(10,383,919)	(16,670,595)
Borrowings	(25,498,915)	(110,615,975)	(136,114,890)
	(31,785,591)	(120,999,894)	(152,785,485)
<b>Net foreign currency liability</b>	<b>(31,210,704)</b>	<b>(104,340,306)</b>	<b>(135,551,010)</b>

\*Cash and cash equivalents exclude cash in hand.

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

## 38. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Market risks (Continued)

#### i) Foreign currency risk (Continued)

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

	Gazetted base rate Shs	2015 Shs	2014 Shs
US\$	64.9242	98.6394	87.627
Yen	0.6404	0.7977	0.8650
Euro	100.793	110.3953	119.55

#### Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's profit or loss on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax Shs' 000
<b>2015</b>		
US\$	13%	2,186,326
Yen	(8%)	(757,841)
Euro	(8%)	(712,962)
<b>Total</b>		<b>715,523</b>
<b>2014</b>		
US\$	2%	121,750
Yen	(1%)	(62,022)
Euro	6%	588,075
<b>Total</b>		<b>647,803</b>

#### ii) Interest rate risk

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

## NOTES TO THE FINANCIAL STATEMENTS

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risks (Continued)

##### ii) Interest rate risk (Continued)

##### Other price risk

This is the risk that the rate of the tariff will decline in the future. It is the risk of losing energy revenues due to a fall in the tariff. The company's exposure to this kind of risk is highly regulated by the Power Purchase Agreement, which is a product of discussion by Kenya Power and the company, with Energy Regulatory Commission as a moderator. The company's main input for thermal energy generation is fuel which is a significant cost component. The company is in an arrangement to pass this cost to the customer, Kenya Power.

#### (b) Credit risk

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

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

	Neither past Due nor impaired Shs '000	Past due but not impaired		Impaired over 365 days Shs '000	Total Shs '000
		over 60 days Shs '000	over 365 days Shs '000		
<b>At 30 June 2015</b>					
Amount due from Kenya Power	7,510,074	537,631	617,673	(617,673)	8,047,705
Treasury bonds –available-for-sale	341,803	-	-	-	341,803
Foreign exchange adjustment receivables	6,876,100	-	-	-	6,876,100
Other receivables (excluding prepayments)	637,134	-	-	-	637,134
Amount due from Ministry of Energy	5,821,272	-	-	-	5,821,272
Cash and cash equivalents*	3,292,307	-	-	-	3,292,307
	<b>24,478,690</b>	<b>537,631</b>	<b>617,673</b>	<b>(617,673)</b>	<b>25,016,321</b>



## 38. FINANCIAL RISK MANAGEMENT (Continued)

### b) Credit risk (Continued)

	Neither past Due nor impaired Shs '000	Past due but not impaired		Impaired over 365 days Shs '000	Total Shs '000
		over 60 days Shs '000	over 365 days Shs '000		
At 30 June 2014					
Amount due from Kenya Power	6,033,194	1,640,285	778,906	(600,785)	7,851,600
Treasury bonds –available-for-sale	594,769	-	-	-	594,769
Foreign exchange adjustment receivables	6,657,923	-	-	-	6,657,923
Other receivables (excluding prepayments)	1,130,151	-	-	-	1,130,151
Amount due from Ministry of Energy	5,315,816	-	-	-	5,315,816
Cash and cash equivalents*	9,429,358	-	-	-	9,429,358
	<b>29,161,211</b>	<b>1,640,285</b>	<b>778,906</b>	<b>(600,785)</b>	<b>30,979,617</b>

\*Cash and cash equivalents exclude cash in hand.

The company only sells generated electricity to Kenya Power and this minimizes the credit risk exposure on amount due from Kenya Power. Both companies have a contract that stipulates a 40 day credit period. Receivable balances from company staff are recovered on payment of salaries.

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

### c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. Typically the company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and political violence. The company monitors its risk to shortage of funds using a recurring liquidity planning tool.

This tool considers the account receivables from Kenya Power and the Ministry of Energy & Petroleum 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 38. FINANCIAL RISK MANAGEMENT (Continued)

#### c) Liquidity risk (Continued)

At 30 June 2015, the statement of financial position reflect a net current liability position of Sh 1,111,000,000 (2014: Current asset of Sh 2,434,414,000). This is expected to return to a net current asset position through the proceeds that will be received from the rights issue planned for the year ending 30 June 2016 after the company will have obtained approval from the regulatory authorities. These proceeds comprise new cash estimated at Sh 8,636,000,000 to be raised from the minority shareholders and a seven year annual savings of approximately Sh 1,800,000,000 which relates to the amount previously paid to service the Government of Kenya on-lent loan. The on-lent loan is expected to convert to equity when new shares are issued to the Government from the rights issue.

The table below analyses maturity profiles of the financial liabilities of the company based on the remaining period using 30 June 2014 as a base period to the contractual maturity date:

	Less than 3 months Shs '000	3 to 12 months Shs '000	1 to 5 years Shs '000	> 5 years Shs '000	Total Shs '000
<b>2015</b>					
Trade and other payables	7,623,617	-	5,329,722	-	12,953,339
Less non-financial liabilities	(4,309,666)	-	-	-	(4,309,666)
	3,313,951	-	5,329,722	-	8,643,673
Amount due to Kenya Power	4,879	-	-	-	4,879
Borrowings	2,975,283	6,451,963	35,625,255	81,414,492	126,466,993
	<b>6,294,113</b>	<b>6,451,963</b>	<b>40,954,977</b>	<b>81,414,492</b>	<b>135,115,545</b>
<b>2014</b>					
Trade and other payables	6,300,741	-	10,369,854	-	16,670,595
Less non-financial liabilities	(2,327,418)	-	-	-	(2,327,418)
	3,973,323	-	10,369,854	-	14,343,177
Amount due to Kenya Power	82,884	-	-	-	82,884
Borrowings	6,876,076	6,914,703	33,704,401	88,619,710	136,114,890
	<b>10,932,283</b>	<b>6,914,703</b>	<b>44,074,255</b>	<b>88,619,710</b>	<b>150,540,951</b>

#### d) Fair value hierarchy

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

As at 30 June 2015, the company held the following financial instruments measured at fair value:

## 38. FINANCIAL RISK MANAGEMENT (Continued)

### d) Fair value hierarchy (Continued)

Financial assets/ liabilities	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2015 Sh	30 June 2014 Sh				
Treasury bonds- available-for-sale	341,803	594,769	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2014: none).

## 39. CAPITAL RISK MANAGEMENT

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

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as circumstances would dictate. There were no changes in the company's approach to capital management as regards the objectives, policies or processes during the year. The company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The company's target is to keep the self-financing ratios greater than 25%. The company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash equivalents. Capital includes 30% ordinary shares attributable to the public and 70% ordinary shares attributable to the Government of Kenya and distributable reserves.

	2015 Shs'000	2014 Shs'000
Equity	141,594,091	76,709,673
Borrowings Less cash and bank balances (note 23 (a))	126,466,993 (3,292,307)	136,114,890 (9,429,358)
Net debt	123,174,686	126,685,532
Gearing ratio	47%	61%

## 40. CURRENCY

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

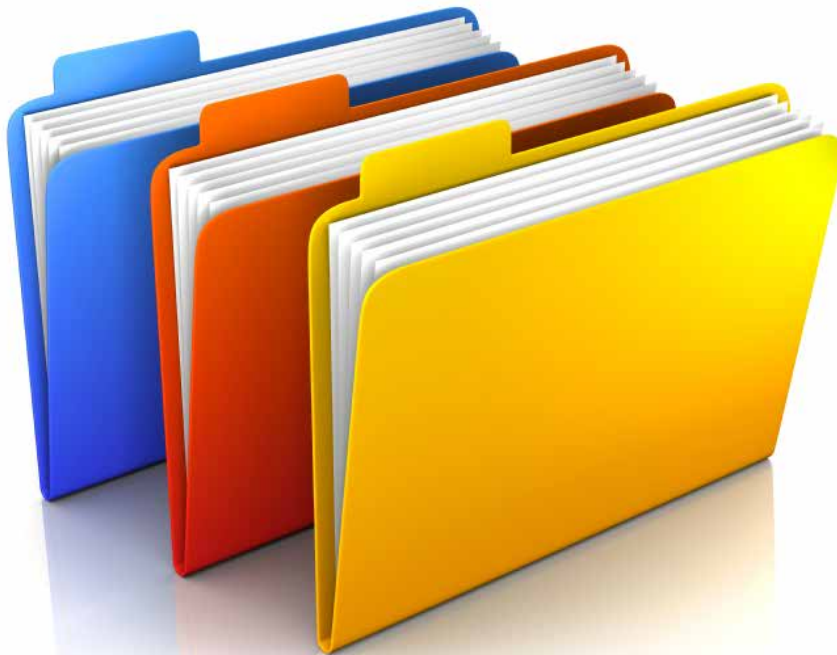
# Shareholders Tour 2015

SHAREHOLDERS TOUR  
2015





# **ADDITIONAL INFORMATION & STATISTICS**



## Additional Information & Statistics

### Capital Commitments (Shs'000)

Project	Output	30-Jun-2015			30-Jun-2014		
		Amount Authorised and Contracted for	Amount Authorised but not Contracted for	Total capital commitments	Amount Authorised and Contracted for	Amount Authorised but not Contracted for	Total capital commitments
Olkaria I & IV	280MW	1,471,116	-	1,471,116	3,056,621	-	3,056,621
Wellheads	70MW	2,989,106	-	2,989,106	6,114,719	-	-
Drilling of wells	350MW	9,077,936	-	9,077,936	19,227,068	-	19,227,068
Ngong Wind	20.4MW	-	-	-	480,014	-	-
Kindaruma rehabilitation	20MW	-	-	-	124,967	-	-
Geothermal Plaza		-	-	-	737,845	-	-
Sangoro	21MW	-	-	-	849,918	-	-
Relocation of GT Turbines	30MW	425,814	-	425,814	-	-	-
Olkaria V _140MW	140MW	1,464,990	43,312,447	44,777,4387	-	36,452,790	36,452,790
Olkaria I Unit 6 _70MW	70MW	-	20,667,931	20,667,931	-	18,401,649	18,401,649
Olkaria I Rehabilitation	45MW	-	10,414,913	10,414,913	-	-	-
Olkaria VI(PPP)	140MW	-	47,801,165	47,801,165	-	36,452,790	36,452,790
Meru Wind	100MW	-	14,354,303	14,354,303	-	26,025,189	26,025,189
<b>Total</b>		<b>15,428,962</b>	<b>136,550,758</b>	<b>151,979,721</b>	<b>30,591,152</b>	<b>117,332,419</b>	<b>139,616,108</b>
Geothermal		15,003,148	122,196,456	137,199,604	29,136,253	91,307,230	120,443,483
Wind			14,354,303	14,354,303	480,014	26,025,189	26,505,203
Thermal		425,814	-	425,814	-	-	-
Hydro		-	-	-	974,885	-	974,885
<b>Total</b>		<b>15,428,962</b>	<b>136,550,759</b>	<b>151,979,721</b>	<b>30,591,152</b>	<b>117,332,419</b>	<b>147,923,571</b>

### Historical Performance

<b>Plant Performance</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Units Sold(GWh)	5,041	5,404	6,022	6,084	7,027
Average weighted tariff (Shs/KWh)	2.85	2.96	2.73	2.86	3.65

<b>Statement of Comprehensive Income</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
Electricity Revenue	14,389,027	15,999,078	16,451,195	17,423,771	25,602,038
Interest income	548,975	952,621	676,109	416,154	359,082
Other income	284,094	484,632	594,888	650,896	624,585
	<b>15,222,096</b>	<b>17,436,331</b>	<b>17,722,192</b>	<b>18,490,821</b>	<b>26,585,705</b>

<b>Expenses</b>	<b>(11,570,789)</b>	<b>(13,391,141)</b>	<b>(13,695,268)</b>	<b>(14,332,873)</b>	<b>(17,895,693)</b>
Employee expenses	(2,890,984)	(2,169,802)	(3,248,141)	(3,491,942)	(4,162,284)
Operating expenses	(2,541,184)	(3,212,983)	(2,814,490)	(3,592,594)	(4,285,122)
Other gains/(losses)	439,669	(152,811)	(53,107)	67,119	41,317
Depreciation & Amortisation	(4,581,339)	(4,883,237)	(4,578,728)	(4,727,937)	(6,478,945)
Finance costs	(1,996,951)	(2,972,308)	(3,000,802)	(2,587,519)	(3,010,659)
<b>Profit Before Tax</b>	<b>3,651,307</b>	<b>4,045,190</b>	<b>4,026,924</b>	<b>4,157,948</b>	<b>8,690,012</b>
Taxation (charge)/credit	(1,571,186)	(1,222,590)	1,197,780	(1,331,625)	2,827,315
<b>Profit After Tax</b>	<b>2,080,121</b>	<b>2,822,600</b>	<b>5,224,704</b>	<b>2,826,323</b>	<b>11,517,327</b>

Other Comprehensive Income/ (Loss)	(633,498)	(962,452)	(16,722)	1,243,851	54,246,436
<b>Total Comprehensive Income</b>	<b>1,446,623</b>	<b>1,860,148</b>	<b>5,207,982</b>	<b>4,070,174</b>	<b>65,763,763</b>

<b>Earnings per share -</b>					
<b>Basic and diluted (Shs)</b>	<b>0.94</b>	<b>1.28</b>	<b>2.39</b>	<b>1.29</b>	<b>5.24</b>

<b>Dividends per Share (Shs)</b>	<b>0.50</b>	<b>0.60</b>	<b>0.60</b>	<b>0.40</b>	<b>0.65</b>
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## Additional Information & Statistics

### Statement of Financial Position

	2011 Shs'000	2012 Shs'000	2013 Shs'000	2014 Shs'000	2015 Shs'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	116,786,429	120,664,699	153,201,471	209,235,821	305,378,764
Prepaid leases on land	1,373	35,426	439,957	1,048,372	3,223,658
Intangible assets	663,553	896,335	1,079,686	1,066,049	1,122,452
Amount due from Kenya Power-deferred debt	1,472,503	1,401,133	1,148,965	1,084,900	965,266
Treasury bonds	9,610,661	8,050,919	2,436,683	2,431,799	2,426,440
Recoverable foreign exchange adjustment	12,919,737	9,808,295	5,238,710	6,300,529	6,242,228
Retirement benefit asset	-	-	-	1,407,411	1,792,214
	<b>141,454,256</b>	<b>140,856,807</b>	<b>163,545,472</b>	<b>222,574,881</b>	<b>321,151,022</b>
<b>Current assets</b>					
Inventories	1,168,240	1,955,564	836,259	788,333	899,076
Amount due from Kenya Power	7,786,396	7,221,777	6,186,749	7,851,600	8,047,705
Other receivables	1,593,845	6,077,151	5,903,928	3,231,077	2,297,838
Amount due from Ministry of Energy	4,574,417	5,318,021	5,315,816	5,315,816	5,821,272
Treasury bonds	391,127	643,203	2,550,345	594,769	341,803
Recoverable foreign exchange adjustment	523,554	405,477	338,286	357,395	633,872
Corporate tax recoverable	385,857	231,154	-	-	-
Amount due from Kenya Power-deferred debt	-	-	-	62,295	35,100
Cash and cash equivalents	3,115,598	435,719	3,996,427	9,429,358	3,292,307
	<b>19,539,034</b>	<b>22,288,066</b>	<b>25,127,810</b>	<b>27,630,643</b>	<b>21,368,973</b>
<b>TOTAL ASSETS</b>	<b>160,993,290</b>	<b>163,144,873</b>	<b>188,673,282</b>	<b>250,205,524</b>	<b>342,519,995</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	5,495,904	5,495,904	5,495,904	5,495,904	5,495,904
Share premium	5,039,818	5,039,818	5,039,819	5,039,818	5,039,818
Capital reserve	8,579,722	8,579,722	8,579,721	8,579,722	8,579,722
Investments revaluation reserve	751,962	(210,490)	(192,424)	(135,072)	(81,488)
Property, plant and equipment revaluation reserve	19,038,008	17,954,954	17,306,770	16,658,062	70,077,899
Retained earnings	30,513,173	33,209,643	37,728,726	41,071,239	52,482,236
	<b>69,418,587</b>	<b>70,069,551</b>	<b>73,958,516</b>	<b>76,709,673</b>	<b>141,594,091</b>



## Additional Information & Statistics

### Statement of Financial Position (Cont.)

	2011	2012	2013	2014	2015
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
<b>Non-current liabilities</b>					
Borrowings	64,166,527	61,850,220	73,934,313	122,324,111	117,039,768
Loans convertible to equity	-	-	-	-	20,151,541
Operating lease liability	7,000	5,000	3,000	1,000	-
Retirement benefits liability	1,112,400	250,647	290,876	-	-
Deferred tax liability	15,032,183	15,968,498	14,222,916	15,604,657	35,924,900
Long term Contract payables	-	-	8,591,032	10,369,854	5,329,722
	<b>80,318,111</b>	<b>78,074,365</b>	<b>97,042,137</b>	<b>148,299,622</b>	<b>178,445,931</b>
<b>Current liabilities</b>					
Borrowings due within one year	4,480,481	7,265,504	7,000,387	13,790,779	9,427,225
Trade and other payables	3,645,245	4,370,312	6,859,707	6,300,740	7,623,617
Amount due to Kenya power	13,659	6,405	83,332	82,884	4,879
Operating lease liability	2,000	2,000	2,000	2,000	1,000
Leave pay provision	191,387	160,415	252,429	231,334	293,251
Tax Payable	-	-	278,453	668,859	394,827
Dividends payable	2,923,821	3,196,321	3,196,321	4,119,633	4,735,174
	<b>11,256,592</b>	<b>15,000,957</b>	<b>17,672,629</b>	<b>25,196,229</b>	<b>22,479,973</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>160,993,290</b>	<b>163,144,873</b>	<b>188,673,282</b>	<b>250,205,524</b>	<b>342,519,995</b>
Capex	19,169,926	9,020,497	37,396,364	61,084,354	27,686,471

### Financial Ratios

	2011	2012	2013	2014	2015
Profit Margin	25.38%	25.28%	24.48%	23.86%	33.94%
Return on total assets	2.83%	3.35%	3.21%	3.39%	3.45%
Current Ratio	1.74	1.49	1.42	1.10	0.95
Debt Service Coverage Ratio	2.86	1.94	1.24	0.99	1.16
Self Financing Ratio	48%	35%	27%	18%	41%
Debt/(Debt+Equity)	49%	49%	51%	61%	47%
Return on Equity	3%	4%	7%	4%	8%

## Additional Information & Statistics

### Installed vs. Effective Capacity in MW as at June.....

Plant	2015		2014		2013		2012		2011	
	Installed	Effective	Installed	Effective	Installed	Effective	Installed	Effective	Installed	Effective
<b>HYDRO</b>										
Tana	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	10.4
Kamburu	94.2	90.0	94.2	90.0	94.2	90.0	94.2	90.0	94.2	94.2
Gitaru	225.0	216.0	225.0	216.0	225.0	216.0	225.0	216.0	225.0	216.0
Kindaruma	72.0	70.5	72.0	70.5	72.0	48.0	68.0	44.0	40.0	40.0
Masinga	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Kiambere	168.0	164.0	168.0	164.0	168.0	164.0	168.0	164.0	168.0	164.0
Turkwel	106.0	105.0	106.0	105.0	106.0	105.0	106.0	105.0	106.0	106.0
Sondu Miriu	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Sang'oro	21.0	20.0	21.0	20.0	21.0	20.0	21.0	20.0	0.0	0.0
Small Hydros	13.7	11.3	13.7	11.1	13.7	11.1	13.7	10.9	13.7	13.3
<b>Hydro Total</b>	<b>819.9</b>	<b>796.8</b>	<b>819.9</b>	<b>796.6</b>	<b>819.9</b>	<b>774.1</b>	<b>815.9</b>	<b>769.9</b>	<b>766.9</b>	<b>743.9</b>
<b>THERMAL</b>										
Kipevu I Diesel	73.5	60.0	73.5	60.0	73.5	60.0	73.5	60.0	73.5	59.0
Kipevu III Diesel	120.0	115.0	120.0	115.0	120.0	115.0	120.0	115.0	120.0	115.0
Kipevu Gas Turbine*	60.0	54.0	60.0	54.0	60.0	27.0	60.0	27.0	30.0	27.0
Garissa & Lamu	9.0	8.2	8.7	7.7	8.7	7.7	8.7	8.3	8.9	7.1
<b>Thermal Total</b>	<b>262.5</b>	<b>237.2</b>	<b>262.2</b>	<b>236.7</b>	<b>262.2</b>	<b>209.7</b>	<b>262.2</b>	<b>210.3</b>	<b>232.4</b>	<b>208.1</b>
<b>GEOHERMAL</b>										
Olkaria I	45.0	44.0	45.0	44.0	45.0	44.0	45.0	44.0	45.0	45.0
Olkaria I AU	150.5	140.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Olkaria II	105.0	99.3	105.0	101.0	105.0	88.2	105.0	101.0	105.0	105.0
Eburru	2.5	2.3	2.5	2.3	2.5	2.3	2.5	2.3	0.0	0.0
Wellhead 37	5.5	4.4	5.0	4.4	5.0	4.4	5.0	4.4	0.0	0.0
Wellhead 43	12.8	12.8	12.8	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Wellhead 914	27.8	27.8	12.8	12.8	0.0	0.0	0.0	0.0	0.0	0.0
Wellhead 915	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Olkaria IV	149.8	140.0	73.0	70.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Geothermal Total</b>	<b>508.9</b>	<b>480.6</b>	<b>256.1</b>	<b>247.3</b>	<b>157.5</b>	<b>138.9</b>	<b>157.5</b>	<b>151.7</b>	<b>150.0</b>	<b>150.0</b>
<b>WIND</b>										
Ngong I phase I&II	11.9	11.9	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Ngong II	13.6	13.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Wind Total</b>	<b>25.5</b>	<b>25.5</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>
<b>KENGEN TOTAL</b>	<b>1,616.8</b>	<b>1,540.0</b>	<b>1,343.3</b>	<b>1,285.7</b>	<b>1,244.7</b>	<b>1,127.8</b>	<b>1,240.7</b>	<b>1,137.0</b>	<b>1,154.4</b>	<b>1,107.1</b>

## Generated vs. Sold Units (Gwh) as at 30 June

## Additional Information & Statistics

HYDRO	2015			2014			2013			2012			2011		
	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	
Tana	111.08	108.23	71.11	68.92	109.66	107.56	88.00	85.66	88.00	85.66	49.40	49.40	49.40	49.40	
Wanji	44.07	43.73	42.21	42.12	42.30	41.11	49.06	48.95	49.06	48.95	40.70	40.70	40.70	40.40	
Kamburu	358.62	357.98	421.91	420.87	521.16	520.10	410.50	409.60	410.50	409.60	407.50	407.50	407.50	407.50	
Gitaru	711.41	709.88	831.72	829.95	1,037.38	1,035.55	793.40	792.60	793.40	792.60	804.30	804.30	803.80	803.80	
Kindaruma	165.97	165.30	201.89	201.23	252.62	251.99	185.20	184.62	185.20	184.62	191.30	191.30	191.20	191.20	
Gogo	5.63	5.56	5.83	5.83	5.13	5.07	6.57	6.47	6.57	6.47	6.80	6.80	6.70	6.70	
Sosiani	0.87	0.86	0.99	0.98	1.56	1.55	1.90	1.88	1.90	1.88	1.60	1.60	1.50	1.50	
Mesco	2.48	2.47	1.90	1.90	-	-	-	-	-	-	-	-	-	-	
Ndula	0.00	0.00	-	-	-	-	-	-	-	-	0.40	0.40	0.40	0.40	
Sagana	8.20	7.55	9.05	9.05	9.71	9.71	10.68	8.88	10.68	8.88	8.00	8.00	8.00	8.00	
Masinga	137.86	137.72	206.81	206.42	148.41	148.41	137.28	136.74	137.28	136.74	201.10	201.10	201.00	201.00	
Kiambere	718.40	717.64	980.35	978.67	1,180.42	1,178.47	887.90	885.83	887.90	885.83	898.80	898.80	882.70	882.70	
Turkwel	554.10	551.22	721.05	718.59	545.04	550.26	474.62	472.96	474.62	472.96	455.40	455.40	455.40	455.40	
Sondu Miriu	376.45	375.54	351.74	351.86	393.81	392.87	409.60	408.84	409.60	408.84	364.30	364.30	364.30	364.30	
Sangoro	124.89	124.54	109.54	109.32	110.08	110.04	6.72	6.71	6.72	6.71	-	-	-	-	
<b>Total Hydros</b>	<b>3,320.03</b>	<b>3,308.22</b>	<b>3,956.10</b>	<b>3,945.71</b>	<b>4,357.28</b>	<b>4,352.68</b>	<b>3,461.43</b>	<b>3,449.74</b>	<b>3,461.43</b>	<b>3,449.74</b>	<b>3,429.60</b>	<b>3,429.60</b>	<b>3,412.30</b>	<b>3,412.30</b>	
<b>DIESEL</b>															
Kipevu I Diesel	161.17	156.51	228.41	219.93	191.37	185.16	265.67	256.14	265.67	256.14	226.30	226.30	222.70	222.70	
Kipevu III Diesel	304.47	299.03	533.67	524.22	328.00	320.73	535.17	524.82	535.17	524.82	227.00	227.00	227.00	227.00	
<b>Total Diesel</b>	<b>465.64</b>	<b>455.54</b>	<b>762.08</b>	<b>744.15</b>	<b>519.37</b>	<b>505.89</b>	<b>800.84</b>	<b>780.96</b>	<b>800.84</b>	<b>780.96</b>	<b>453.30</b>	<b>453.30</b>	<b>449.70</b>	<b>449.70</b>	
<b>GEOTHERMAL</b>															
Olkaria I	348.68	332.69	367.74	352.49	385.17	368.69	292.10	278.89	292.10	278.89	236.00	236.00	235.10	235.10	
Olkaria I AU	774.36	743.63	-	-	-	-	-	-	-	-	-	-	-	-	
Olkaria II	798.29	756.40	754.25	712.38	738.18	695.64	865.30	818.59	865.30	818.59	796.40	796.40	794.00	794.00	
Eburru	12.48	10.99	9.38	6.72	9.92	9.20	0.90	0.78	0.90	0.78	-	-	-	-	
Wellhead 37	10.49	9.50	16.75	16.75	25.13	22.78	2.92	2.90	2.92	2.90	-	-	-	-	
Wellhead 43	82.69	78.42	29.28	29.28	-	-	-	-	-	-	-	-	-	-	
Wellhead 914 & 915	114.98	108.49	7.24	7.24	-	-	-	-	-	-	-	-	-	-	
Olkaria IV	1107.69	1064.09	172.20	172.20	-	-	-	-	-	-	-	-	-	-	
<b>Total Geothermal</b>	<b>3,249.66</b>	<b>3,104.21</b>	<b>1,356.84</b>	<b>1,297.06</b>	<b>1,158.40</b>	<b>1,096.31</b>	<b>1,161.22</b>	<b>1,101.17</b>	<b>1,161.22</b>	<b>1,101.17</b>	<b>1,032.40</b>	<b>1,032.40</b>	<b>1,029.10</b>	<b>1,029.10</b>	

## Additional Information & Statistics

### Generated vs. Sold Units (Gwh) as at 30 June (Cont.)

	2015		2014		2013		2012		2011	
	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales	Generated	Sales
<b>GAS TURBINE</b>										
Embakasi Gas Turbine (Active)*	4.20	4.10	27.46	26.94	28.51	27.00	33.00	32.51	0.90	0.90
Embakasi Gas Turbine (Re - Active)	84.97	84.97	25.39	25.39	-	-	-	-	-	-
<b>Total Gas Turbine</b>	<b>89.17</b>	<b>89.07</b>	<b>52.85</b>	<b>52.33</b>	<b>28.51</b>	<b>27.00</b>	<b>33.00</b>	<b>32.51</b>	<b>0.90</b>	<b>0.90</b>
					25.33					
<b>ISOLATED DIESELS</b>										
Gariisa	25.82	25.77	20.67	20.29	20.02	20.02	19.00	18.42	16.70	16.10
Lamu	7.07	6.95	7.30	7.24	6.99	6.91	6.70	6.61	7.00	6.90
<b>Total Isolated</b>	<b>32.89</b>	<b>32.72</b>	<b>27.97</b>	<b>27.53</b>	<b>27.01</b>	<b>26.92</b>	<b>25.07</b>	<b>25.03</b>	<b>23.70</b>	<b>23.00</b>
<b>WIND TURBINE</b>										
Old Ngong Wind (0.35MW)	0.00	0.00	-	-	-	-	-	-	-	-
Ngong' I Phase I & 2	16.68	16.66	17.59	17.59	13.92	13.92	15.20	14.58	17.70	17.70
Ngong' II	20.48	20.45	-	-	-	-	-	-	-	-
<b>Total Wind</b>	<b>37.16</b>	<b>37.11</b>	<b>17.59</b>	<b>17.59</b>	<b>13.92</b>	<b>13.92</b>	<b>15.20</b>	<b>14.58</b>	<b>17.70</b>	<b>17.70</b>
<b>TOTAL KENGEN</b>	<b>7,194.55</b>	<b>7,026.87</b>	<b>6,173.43</b>	<b>6,084.37</b>	<b>6,104.49</b>	<b>6,022.72</b>	<b>5,496.11</b>	<b>5,403.99</b>	<b>4,957.60</b>	<b>4,932.70</b>

## Additional Information & Statistics

### Weighted Factors - %

POWER STATION	2014/2015		2014/2015		2013/2014		2012/2013		2011/2012		2010/2011	
	Effective Capacity	Availability	Load factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	Availability	Load Factor	
<b>Hydro</b>												
Tana	20	89.83	61.78	40.95	39.34	77.85	61.39	71.31	50.11	90.68	32.65	
Wanji	7.4	75.60	67.47	91.39	64.98	75.60	63.42	89.52	70.16	73.35	42.86	
Kamburu	90	91.06	45.41	90.59	53.38	94.71	65.97	96.62	48.83	97.04	27.99	
Gitaru	216	97.94	37.52	97.15	43.86	97.69	54.73	84.98	40.14	92.52	23.93	
Kindaruma	70.5	96.15	26.77	90.81	32.58	71.98	65.38	85.18	47.09	96.43	31.15	
Gogo	1.6	63.71	39.66	66.25	37.00	64.52	32.12	77.96	32.53	66.58	32.53	
Sosiani	0.36	45.65	57.82	93.44	55.82	84.20	44.30	91.25	52.67	100.00	40.80	
Mesco	0.43	96.25	67.08	69.70	72.61	8.04	0.00	0.00	0.00	11.72	7.86	
Ndula	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	70.59	18.37	
Sagana	1.5	87.70	57.45	99.42	68.88	82.59	73.87	96.25	68.92	94.72	56.52	
Masinga	40	96.42	39.25	96.83	58.93	76.44	42.27	98.77	10.42	65.90	17.48	
Kiambere	164	96.74	49.95	93.06	68.12	99.13	78.58	96.74	60.17	77.56	37.98	
Turkwel	105	82.62	59.36	98.08	78.12	87.62	59.26	90.59	51.09	95.98	37.18	
Sondu Miriu	60	97.58	71.45	97.95	66.78	81.29	74.75	95.61	77.72	95.35	64.78	
Sangoro	20	95.49	67.70	94.01	62.40	80.20	59.86	0.00	0.00	0.00	0.00	
<b>Total Effective Capacity</b>	<b>796.79</b>											
<b>Weighted Factors - Hydros</b>		<b>85.75</b>	<b>45.00</b>	<b>93.55</b>	<b>56.53</b>	<b>91.03</b>	<b>63.64</b>	<b>88.64</b>	<b>48.24</b>	<b>94.02</b>	<b>51.70</b>	
Kipevu I Diesel	60.00	70.56	34.36	68.52	41.84	89.18	35.23	66.18	48.55	76.95	59.49	
Kipevu III Diesel	115.00	95.57	29.68	96.38	52.04	93.85	31.56	92.92	51.82	0.00	0.00	
<b>Total Effective Capacity</b>	<b>175.00</b>											
<b>Weighted Factors - Diesel</b>		<b>87.00</b>	<b>31.28</b>	<b>86.83</b>	<b>48.54</b>	<b>92.25</b>	<b>32.82</b>	<b>83.75</b>	<b>50.70</b>	<b>89.15</b>	<b>55.03</b>	



## Additional Information & Statistics

### Weighted Factors - % (Cont.)

	2014/2015	2014/2015	2013/2014	2012/2013	2011/2012	2010/2011
<b>Wind Turbine</b>						
Ngong I phase I	5.1	74.90	19.36	91.63	39.38	70.00
Ngong I phase II	6.8	84.34	27.74			31.15
Ngong II	13.6	89.50	32.97			69.30
Total Effective Capacity	25.50					
Weighted Factors - Ngong'	1540.04	85.20	28.85	91.63	39.38	70.00
						31.15
						69.30
						83.92
						39.04

# Shareholders Tour 2015

SHAREHOLDERS TOUR  
2015





# SHAREHOLDERS CALENDAR



## Shareholders Calendar

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### Notice of the Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT THE SIXTY-THIRD ANNUAL GENERAL MEETING** of the Company will be held at the Safari Park Hotel, Thika Road, Nairobi on Wednesday, 16<sup>th</sup> December 2015 at 11.00 a.m. to conduct the following business:

#### ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June 2015, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To approve the payment of a final dividend of 26% or Shs 0.65 per ordinary share of Shs 2.50, subject to withholding tax where applicable, in respect of the financial year ended 30<sup>th</sup> June 2015.
5. To approve payment of Directors' fees for the year ended 30<sup>th</sup> June 2015.
6. Auditors:  
To note that the audit of the Company's books of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed by him in accordance with Part IV Section 14(3) of the State Corporations Act and Section 39(1) of the Public Audit Act 2003.
7. To authorise the Directors to fix the remuneration of the Auditors.
8. To elect Directors:
  - (i) Mr. Henry Rotich, Cabinet Secretary-The National Treasury who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.
  - (ii) Mr. Hedrick Omanwa who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.
  - (iii) Mr. Henry M'Narobi who retires on rotation in accordance with Article 104 of the Articles of Association of the Company and being eligible offers himself for re-election as a Director of the Company.
9. To pass the following Ordinary Resolution:  
Special Notice pursuant to Section 142 and 186 (5) of the Companies Act Cap 486 of the Laws of Kenya having been received by the Company of the intention to move a resolution that Mr. Henry M'Narobi who has attained the age of 70 years be re-elected as a Director of the Company notwithstanding his having attained such age, to consider, and if thought fit, pass the following resolution as an Ordinary resolution:  
"That Mr. Henry M'Narobi who has attained the age of 70 years, and who retires by rotation be, and is hereby re-elected as a Director of the Company until he comes up for retirement by rotation under the Memorandum and Articles of Association of the Company.

#### SPECIAL BUSINESS:

10. To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:
  - (i) "THAT the Directors are generally authorised until the date of the next annual general meeting of the Company subject to the receipt of any required regulatory approvals including the approval of the Capital Markets Authority and the Nairobi Securities Exchange to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into shares in the Company, but the maximum aggregate nominal amount of ordinary shares which may be allotted in accordance with this authority shall be, seven billion eight hundred and one million six hundred and thirty eight thousand five hundred and forty four (7,801,638,544) ordinary shares of Shs 2.50 each ranking pari passu in all respects being the total number of existing unissued ordinary shares in the capital of the Company."

- (ii) "THAT subject to the limit as to the number of shares and period set out in the preceding resolution (i) above and subject also to any regulatory approvals the Directors be and are hereby authorised to do the following:
- (a) Rights Issue
- TO offer shares by way of rights to holders of ordinary shares of the Company in such a proportion to the existing shares held by them at close of business on such a date to be fixed by the Directors and at such price as shall be determined by the Directors and to deal with fractional shares in such a manner as they deem fit.
- (b) Conversion of part of the debt owing to the Government of Kenya
- TO accept payment of the Government of Kenya's share entitlement in the proposed rights issue by way of conversion of part of the loans on-lent by the Government of Kenya to the Company.
- (c) Directors' powers to deal with untaken shares
- TO dispose off the shares not taken up by any shareholders or the shares not issued by reason of fractions of shares being disregarded, at such price and on such terms as they may consider expedient."
- (iii) Revocation of limit on shares issuable in the Rights Issue
- "THAT the limitation placed on the Directors by the shareholders resolution passed on 20<sup>th</sup> December 2013 to issue only up to two billion, two hundred and fifteen million, nine hundred and twenty-seven thousand, five hundred and twenty-eight (2,215,927,528) is hereby revoked and the Directors are hereby authorized to proceed in the manner set out in the preceding resolutions."
- (iv) "THAT the Directors of the Company be and are hereby authorized to sign all documents and to do all such things as may be necessary to give effect to the above resolutions."
- (v) "THAT the Company Secretary be and is hereby instructed to file all such returns and make all such entries as required by law in order to give effect to the matters resolved or otherwise determined at this meeting."
11. To consider any other business for which due notice has been given.

By Order of the Board



**Rebecca Miano**  
Company Secretary  
12 October 2015

## Shareholders Calendar

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### NOTES:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.

A Proxy Form may be obtained from the Company's website at [www.kengen.co.ke](http://www.kengen.co.ke), registered office of the Company, Stima Plaza, Kolobot Road, Parklands, Nairobi or offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5<sup>th</sup> Floor, Loita Street, Nairobi.

To be valid, the Proxy Form, must be duly completed by a member and must either be lodged at the registered offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza 5<sup>th</sup> Floor, Loita Street, P.O. Box 9287, 00100 GPO, Nairobi or be posted, or scanned and emailed to [info@image.co.ke](mailto:info@image.co.ke) in PDF format; so as to reach Image Registrars not later than Monday, 14<sup>th</sup> December 2015 at 11.00 a.m.

2. In accordance with Article 137 of the Articles of Association of the Company, a copy of the entire Annual Report & Accounts may be viewed on the Company's website at [www.kengen.co.ke](http://www.kengen.co.ke) or a printed copy may be obtained from the Registered Office of the Company, Stima Plaza, Kolobot Road, Parklands, Nairobi, P.O. Box 47936 - 00100 GPO, Nairobi.



### Ilani ya Mkutano Mkuu Wa Kila Mwaka

**ILANI INATOLEWA HAPA KWAMBA MKUTANO MKUU WA KILA MWAKA WA SITINI NA TATU** wa Kampuni utaandaliwa katika Safari Park Hotel, Thika Road, Nairobi mnamo Jumatano, Desemba 16, 2015 saa 5.00 asubuhi kuendesha shughuli zifuatazo:

#### SHUGHULI ZA KAWAIDA

1. Kuwatambua wawakilishi na kuwepo kwa idadi ya kutosha ya wanachama.
2. Kusoma Ilani ya kuandaa mkutano.
3. Kuchunguza na iwapo itapitishwa, kuidhinisha taarifa za kifedha za Kampuni zilizokaguliwa kwa mwaka uliomalizika Juni 30, 2015 pamoja na Ripoti za Mwenyekiti, Wakurugenzi na Wahasibu zilizoambatanishwa.
4. Kuidhinisha malipo ya mgao wa mwisho ya asilimia 26 au Sh 0.65 kwa kila hisa ya kawaida ya Sh2.50, baada ya kuondoa ushuru wa kushikilia inakohitajika, kuhusiana na kipindi cha matumizi ya fedha kilichomalizika Juni 30, 2015.
5. Kuidhinisha malipo ya Wakurugenzi kwa mwaka uliomalizika Juni 30, 2015.
6. Kutambua kuwa ukaguzi wa vitabu vya hesabu vya Kampuni utaendelea kutekelezwa na Mhasibu Mkuu wa Umma, au kampuni yoyote atakayoteua kwa mujibu wa Sehemu IV, Fungu 14 (3) la Sheria za Mashirika ya Umma 2003 na Fungu 39 (1) la Sheria ya Uhasibu 2003.
7. Kuidhinisha Wakurugenzi kuamua malipo ya Wahasibu.
8. Kuchagua Wakurugenzi:
  - (i) Bw. Henry Rotich, Katibu Baraza la Mawaziri - Hazina ya Kitaifa ambaye anastaafu kwa mzunguko kwa mujibu wa Kipengele cha 104 cha Katiba ya Kampuni na kwa kuwa bado anahitimu ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
  - (ii) Bw. Hedrick Omanwa ambaye anastaafu kwa mzunguko kwa mujibu wa Kipengele cha 104 cha Katiba ya Kampuni na kwa kuwa bado anahitimu ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
  - (iii) Bw. Henry M'Narobi ambaye anastaafu kwa mujibu wa Kipengele cha 104 cha Katiba ya Kampuni na kwa kuwa bado anahitimu ajitokeza kuchaguliwa tena kama Mkurugenzi wa Kampuni.
9. Kupitisha Azimio lifuatalo la Kawaida:

Baada ya Ilani Maalumu kwa mujibu wa Kifungu cha 142 na 186 (5) ya Sheria za Kampuni Sura ya 486 ya Sheria za Kenya kupokelewa na Kampuni kuhusu nia ya kuwasilisha pendekezo kwamba Bw Henry M'Narobi ambaye amefikikisha umri wa miaka 70 achaguliwe tena kama Mkurugenzi wa Kampuni licha ya kufikisha umri huo, kuchunguza na iwapo itakubalika, kupitisha azimio lifuatalo kama azimio la Kawaida:

"Kwamba Bw Henry M'Narobi ambaye amefikisha umri wa miaka 70, na ambaye anastaafu kwa mzunguko, anachaguliwa tena kama Mkurugenzi hadi muda wake wa kustaafu kwa mzunguko utakapowadia chini ya Kanuni na Katiba ya Kampuni."

#### SHUGHULI MAALUMU:

10. Kuchunguza na iwapo itaidhinishwa, kupitisha maazimio yafuatayo ya kawaida:
  - (i) "KWAMBA Wakurugenzi wanaidhinishwa hadi tarehe ya mkutano mwingine mkuu wa kila mwaka wa Kampuni ikitegemea mapokezi ya idhini zinazohitajika ikiwemo Mamlaka ya Masoko ya Mtaji (CMA) na Soko la Hisa la Nairobi (NSE) kutekeleza mamlaka yote ya Kampuni ya kugawa hisa katika Kampuni na kukabidhi haki za au kugeuza dhamana zozote hadi hisa, lakini jumla ya hisa za kawaida ambazo zinaweza kugawanywa kwa mujibu wa mamlaka haya, zitakuwa bilioni saba, milioni mia nane na moja, elfu mia sita na thelathini na nane, na mia tano na arobaini na nne (7,801,638,544) hisa za kawaida za Sh 2.50 kila hisa ikiwa na kiwango sawa ikiwa ni jumla ya hisa za kawaida zilizopo ambazo hazijatolewa kwa mtaji wa Kampuni."

## Shareholders Calendar

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- (ii) "KWAMBA kwa kutegemea kiwango cha juu cha idadi ya hisa na kipindi kilichowekwa kwenye azimio lililotangulia (i) juu na kwa kutegemea idhini zozote za kisheria, Wakurugenzi waidhinishwe na wanaidhinishwa kutekeleza yafuatayo:
- (a) Utoaji wa Hisa kwa Wenye-hisa wa Kampuni
- Kuwauzia hisa wamiliki hisa za kawaida za Kampuni kwa kiwango sawa na hisa zao kufikia kipindikitakachoamuliwa na Wakurugenzi na kwa bei itakayo amuliwa na wakurugenzi na kushughulikia hisa zilizogawanywa kwa namna ambayo wataonelea inafaa.
- (b) Ubadilishaji wa sehemu ya deni la Kampuni kwa Serikali ya Kenya
- Kukubali malipo ya serikali ya Kenya katika mpango wa utoaji wa hisa iwe sehemu ya mikopo hiyo ya Serikali igeuzwe kuwa hisa zake katika Kampuni.
- (c) Mamlaka ya Wakurugenzi kushughulikia hisa ambazo hazijachukuliwa
- Kuuzwa hisa ambazo hazijachukuliwa na wenye-hisa wowote au hisa ambazo hazikutolewa kwa sababu ya hisa zilizogawanwa kupuuzwa, kwa bei au masharti ambayo wanaonelea yanafaa."
- (iii) Kuondoa kiwango cha juu cha hisa zinazotolewa katika Ugawaji Hisa kwa Wenye-hisa
- "KWAMBA kiwango cha juu kilichowekwa Wakurugenzi na wenye-hisa kupitia azimio lililopitishwa Desemba 20, 2013 wagawe hadi hisa bilioni mbili, milioni mia mbili na kumi na tano, elfu mia tisa ishirini na saba, mia tano na ishirini na nane (2,215,927,528) kinaondolewa na Wakurugenzi wanaidhinishwa kuendelea na shughuli hiyo chini ya masharti yaliyoelezwa kwenye maazimio yaliyotangulia."
- (iv) "KWAMBA Wakurugenzi wa Kampuni wapewe na hii hapa wanaidhinishwa kutia sahihi stakabadhi zote na kufanya yote yatakayofanikisha maazimio ya hapo juu."
- (v) "KWAMBA Katibu wa Kampuni aagizwe na anaelekezwa hapa kuwasilisha maelezo hayo kwa mamlaka husika ili kutekeleza masuala yote yaliyoamuliwa hapa kwenye mkutano huu."

11. Kuchunguza shughuli zingine zile ambazo ilani ifaayo imetolewa.

### Kwa Amri ya Bodi



**Rebecca Miano**  
**Katibu wa Kampuni**  
**Oktoba 12, 2015**

### MAELEZO:

1. Mwanachama aliye na haki ya kudhuhuria na kupiga kura kwenye mkutano na ambaye hana uwezo wa kufanya hivyo anaweza kuteua mwakilishi kuhudhuria na kupiga kura kwa niaba yake. Si lazima mwakilishi awe mwanachama wa Kampuni.

Fomu ya Uwakilishi inaweza kupatikana kwenye tovuti ya Kampuni [www.kengen.co.ke](http://www.kengen.co.ke), afisi kuu za Kampuni, Stima Plaza, Kolobot Road, Parklands, Nairobi au afisi za shirika la hisa za Kampuni, Image Registrars Limited, Barclays Plaza Ghorofa ya Tano, Loita Street, Nairobi.

Ili kuwa halali, Fomu ya Uwakilishi, ni lazima ijazwe kikamilifu na mwanachama na kuwasilishwa kwa afisi za shirika la hisa za Kampuni, Image Registrars Limited, Barclays Plaza Ghorofa ya 5, Loita Street, SLP 9287, 00100 GPO, Nairobi au kutumwa kwa njia ya baruapepe kwa [info@image.co.ke](mailto:info@image.co.ke) kwa muundo wa PDF; ili kufikia Image Registrars kabla ya Jumatatu, Desemba 14, 2015 saa 5.00 asubuhi.

2. Kwa mujibu wa Kipengee 137 cha Katiba ya Kampuni, nakala ya Ripoti nzima ya Kila Mwaka na Hesabu inaweza kupatikana kwenye tovuti [www.kengen.co.ke](http://www.kengen.co.ke) au nakala iliyochapishwa ipatikane kwenye afisi kuu za Kampuni, Stima Plaza, Kolobot Road, Parklands, Nairobi, SLP 47936 – 00100 GPO, Nairobi.

## Shareholders Calendar

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### Proxy Form

**P.O. Box 47936 – 00100 GPO  
NAIROBI**

I/WE.....of .....being a member of the above Company,  
hereby appoint: .....of.....or  
failing him/her.....of.....  
failing whom, the Chairman of the Meeting, as my/our proxy, to vote for me/us and on my/our behalf at the Annual  
General Meeting of the Company to be held on Wednesday, 16th December 2015 and at any adjournment thereof.

As witness my/our hand this ..... day of .....2015.

Signed .....

#### Notes:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and a proxy need not be a member of the Company.
2. In the case of a member being a limited Company this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form must be delivered to Image Registrars not later than Monday, 14th December 2015 at 11.00 a.m. Proxy Forms should be sent by Post to Image Registrars of P.O. Box 9287, 00100 Nairobi. Alternatively, duly signed proxies can be scanned and emailed to [info@image.co.ke](mailto:info@image.co.ke) in PDF format.





### Fomu ya Uwakilishi

**S.L.P. 47936 – 00100 GPO  
NAIROBI**

MIMI/ SISI ..... wa ..... kama mwanachama wa  
Kampuni iliyotajwa hapa juu, namteua: ..... wa .....  
..... au akikosa ..... wa .....  
na iwapo hataweza kuhudhuria, mwenyekiti wa Mkutano, kama mwakilishi wangu/wetu, kupiga kura kwa niaba yangu/  
yetu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni utakaoandaliwa mnamo Desemba 16, 2015 au wakati  
wote ule endapo utaahirishwa.

Kama mashahidi sahihi yangu/yetu..... siku ya ..... 2015

Sahihi .....

#### Maelezo:

1. Mwanachama aliye na haki ya kuhudhuria na kupiga kura ana haki ya kuteua mwakilishi mmoja au zaidi kuhudhuria na kupiga kura kwa niaba yake na sio lazima mwakilishi awe mwanachama wa Kampuni.
2. Iwapo ni mwanachama wa kampuni ya dhima yenye kikomo, hii fomu ni lazima ijazwe chini ya nembo yake au mbele ya afisa au wakili ambaye ataidhinishwa kwa maandishi.
3. Fomu ya Uwakilishi ni lazima iwasilishwe kwa Image Registrars kabla ya Jumatatu, 14 Decemba 2015 saa 5 asubuhi. Fomu za Uwakilishi zinapasa kutumwa kwa Posta kwa Image Registrars wa SLP 9287, 00100 Nairobi. Badala yake, fomu za uwakilishi zilizojazwa na kutiwa sahihi zinaweza kutolewa nakala na kutumwa kwa baruapepe [info@image.co.ke](mailto:info@image.co.ke) kwa umbo la PDF.



## Shareholders Calendar

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### Shareholder Notifications

#### Final Dividend for the financial year ended 30 June 2015

##### Closure of Register and Date of Payment

The Register of Members will be closed from Thursday, 17 December 2015 to Friday, 18 December 2015, both dates inclusive.

If approved, the dividend will be paid, less withholding tax where applicable on or about Thursday, 11 February 2016 to the shareholders whose names appear in the Register of Members at the close of business on Wednesday, 16 December 2015.

##### Update of Particulars

- For all CDS account holders, please update your postal address, email address and bank account details at the CDSC through your Stockbroker or Custodian Bank.
- For all Share Certificate holders, please update your postal address, email address and bank account details at the offices of Image Registrars, Barclays Plaza, 5th Floor, Loita Street, P.O. Box 9287-00100 GPO Nairobi.

### Taarifa kwa Wenye-hisa

#### Mgao wa Mwisho kwa Kipindi cha Matumizi ya Fedha kilichomalizika Juni 30, 2015

##### Kufungwa kwa Rejista na Tarehe ya Malipo

Rejista ya wanachama itafungwa kuanzia Alhamisi 17 Desemba 2015 hadi 18 Desemba 2015 siku zote zikiwemo.

Ikiwa itaidhinishwa, mgao wa faida utalipwa baada ya kuondoa ushuru wa kushikilia mnamo au karibu Alhamisi, Februari 11, 2016, kwa wenye-hisa ambao majina yao yatakuwamo kwenye rejista ya wanachama kufikia mwisho wa shughuli za siku Jumatano 16 Desemba 2015.

##### Kurekebisha Maelezo

- Kwa wote walio na akaunti za CDS, tafadhali toa maelezo mapya kuhusu anwani yako, barua pepe na akaunti ya benki katika CDSC kupitia wakala wako wa hisa au Benki Angalizi.
- Kwa wote walio na vyeti vya kumiliki hisa, tafadhali wasilisha maelezo upya kuhusu anwani yako ya posta, barua pepe na maelezo kuhusu akaunti yako ya benki katika ofisi za Image Registrars Limited, Barclays Plaza, Ghorofa ya Tano, Loita Street, SLP 9287, 00100 GPO, Nairobi

## Dematerialisation of Shares

The Central Depository and Settlement Corporation (CDSC) commenced operations in 2004 with the intention of facilitating the holding of shares in electronic accounts instead of paper/physical share certificates to enable electronic trading & settlement of shares. This migration would shorten the settlement period, and enhance the safety & security of dealing with shares listed on the securities. The first step towards achieving electronic trading of shares was immobilization of share certificates which commenced in 2004. The number of Central Depository System (CDS) accounts has grown significantly and CDSC is now targeting to have all the shares owned by Kenyans to be transferred into electronic accounts by 1st November 2013 through a process called Dematerialization.

We trust that the following FAQ's will explain the dematerialization process:

### 1) What is Dematerialization?

Dematerialization is the next step after immobilization. On the dematerialization date, the underlying physical certificates will cease to be evidence of ownership under the Company listed at the Nairobi Securities Exchange (NSE). Evidence of ownership will be in the electronic holdings maintained in the Central Depository System (CDS) operated by CDSC.

### 2) What is a Dematerialized Security?

It is a book entry security which has been prescribed by CDSC under section 24 of the Central Depositories Act, whereby the underlying physical certificate is no longer recognized as evidence of ownership under the Companies Act Cap 486 on or after the dematerialization date.

### 3) What is the impact of dematerialization?

Currently, shares can be withdrawn from a CDS account and held in a certificated form. With effect from the dematerialization date, shares will not be withdrawn from the CDS account because the law does not permit the issuing of share certificates with respect to a dematerialized security. Share Certificates will no longer be recognized as prima facie evidence of ownership and will be replaced with an electronic record at CDSC.

### 4) What do I need to do as a shareholder if I have already deposited all my shares in the CDS account?

You shall not be required to take any further action as a result of dematerialization.

### 5) What happens if I do not immobilize my share certificates by the dematerialization date?

After the Dematerialization date, all shares that have not been immobilized will be reflected as a record in the CDS in the shareholder's name.

### 6) What if I want to access my shares which are held in CDS?

If you wish to access your shares for purposes of trading, you will be required to open a CDS account and follow a verification process through KenGen's shares registrar firm, Image Registrars Limited, after which your shares will be transferred to your personal CDS account.

### 7) When is the dematerialization date?

CDSC will dematerialize securities of listed companies in three groups/tranches on 1st September 2013, 1st October 2013 and 1st November 2013 respectively.

KenGen's dematerialization date is 1st November 2013. Additionally, KenGen will place a notice in the newspapers informing the public about the dematerialization date for KenGen shares.

In the meantime, we urge shareholders who still hold physical certificates to immediately contact any Stockbroker for assistance to immobilize their shares.

## Shareholders Calendar

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### 8) How do I keep track of my shares?

CDSC shall send you monthly statements if your account is active otherwise; you will receive your statement only once a year. However, if you would like to view/download/print your statements, you can visit the CDSC website at [www.cdsckenya.com](http://www.cdsckenya.com). You can also subscribe to the CDSC mobile services where you will receive an alert every time there is an activity in your accounts such as sale or purchase of shares for a minimum fee of Shs10.00 per alert. To subscribe, send the word 'register' to 22372 and follow the instructions.

### Bank Details

We encourage all shareholders who hold certificates and whose dividends are paid via cheques to provide their bank details to our Company's shares registrar firm, Image Registrars Limited, Barclays Plaza, 5th Floor, Loita Street, Nairobi P.O. Box 9287, 00100 GPO, Nairobi Tel: 020-2212065/2230330, 0770052116, 0735565666, 0724699667, email: [info@image.co.ke](mailto:info@image.co.ke) to enable us post the future dividends directly to their bank accounts.

Also, we encourage all shareholders who hold CDSC accounts and whose dividends are paid via cheques to provide their bank details through their stockbrokers to enable us post the future dividends directly to their bank accounts.

### Unclaimed Dividends

Further to the Unclaimed Financial Assets Act 2011, we are appealing to Shareholders who have unclaimed dividends to do so with immediate effect to avoid the dividends being surrendered to the Unclaimed Assets Authority.

Dividend enquiries can be made at the Shares & Securities Office, Stima Plaza, Kolobot Road, Parklands, Nairobi P.O. Box 47936-00100 Nairobi, Tel: 020-3666961/4, 0711036961/4, email: [shares@kengen.co.ke](mailto:shares@kengen.co.ke) or offices of the Company's shares registrar firm, Image Registrars Limited, Barclays Plaza, 5th Floor, Loita Street, Nairobi P.O. Box 9287, 00100 GPO, Nairobi Tel: 020-2212065/2230330, 0770052116, 0735565666, 0724699667, email: [info@image.co.ke](mailto:info@image.co.ke)



### Kubadilishwa kwa Mfumo wa Kuhifadhi Hisa kutoka Karatasi ya Cheti hadi Rekodi ya Kielektroniki

Shirika la Central Depository and Settlement Corporation (CDSC) lilianza huduma zake mnamo 2004 kwa lengo la kuwezesha uhifadhi wa hisa kwenye akaunti za kielektroniki badala ya vyeti vya karatasi ili kuruhusu uuzaji na ununuzi wa hisa kwa njia ya kielektroniki. Mfumo huu ungepunguza muda wa mauzo na malipo na hivyo kuimarisha usalama wa kuuza hisa za mashirika kwenye soko la hisa.

Hatua ya kwanza katika kufanikisha uuzaji wa hisa kwa njia ya kielektroniki ni kugeuza vyeti vya hisa kuwa kwenye umbo la kielektroniki ambayo ilianza 2004.

Idadi ya akaunti za Central Depository System (CDS) imepanda maradufu na CDSC sasa inalenga kuhakikisha hisa zote zinazomilikiwa na Wakenya zinahamishwa hadi akaunti za kielektroniki kufikia Novemba 1, 2013 kupitia utaratibu unaofahamika kama "dematerialization" yaani kusimamisha matumizi ya vyeti vya hisa.

Tunaamini mkusanyiko huu wa Maswali na Majibu yanayoulizwa mara kwa mara (FAQs) yatafafanua utaratibu wa shughuli nzima ya kusimamisha matumizi ya vyeti vya hisa:

#### 1) Ni Nini kusitishwa kwa uhifadhi wa hisa katika vyeti (Dematerialization?)

Ni hatua inayofuata ile ya kusimamisha matumizi ya vyeti vya hisa (immobilization). Siku hiyo, vyeti hivyo vya makaratasi vitakoma kuwa ithibati ya kumiliki hisa za Kampuni husika kwenye Soko la Hisa la Nairobi (NSE). Ushahidi wa umiliki utatolewa kwa njia ya kielektroniki kupitia akaunti zitakazowekwa na CDS ambayo inasimamiwa na CDSC.

#### 2) Inamaanisha nini hisa kukoma kuhifadhiwa katika cheti? (Dematerialized Security?)

Ni mjazo kwenye sajili ya hisa ambao umetajwa na CDSC chini ya Ibara 24 ya Sheria ya Hifadhi Kuu za Hisa, ambapo vyeti husika vya makaratasi havitambuliwi tena kama ushahidi wa umiliki chini ya Kifungu 486 cha Sheria ya Makampuni siku ama baada ya tarehe ya kusitishwa kwa uhifadhi wa hisa katika vyeti (dematerialization).

#### 3) Athari ya kusitishwa kwa uhifadhi wa hisa katika vyeti ni ipi? (Dematerialization?)

Kwa sasa, hisa zaweza kuondolewa katika akaunti ya CDS na kuhifadhiwa kama cheti. Kuanzia tarehe ya kusitishwa kwa vyeti hivi, hisa hazitatolewa katika akaunti ya CDS kwa sababu sheria hairuhusu kutolewa kwa vyeti vya hisa kuhusiana na hisa iliyokoma kuhifadhiwa katika cheti (dematerialized security). Vyeti vya Hisa havitambuliwa tena kama ushahidi wa kutosha wa umiliki na nafasi yao itachukuliwa na rekodi ya kielektroniki katika CDSC.

#### 4) Nitahitajika kufanya nini kama mwenyehisa iwapo nimeshaweka hisa zangu zote katika kaunti ya CDS?

Hautahitajika kuchukua hatua zozote zingine kwa sababu ya kusitishwa kwa uhifadhi wa hisa katika vyeti (dematerialization).

#### 5) Nini kitafanyika iwapo sitasimamisha matumizi ya vyeti vya hisa kufikia siku ya kusitishwa kwa uhifadhi wa hisa katika vyeti (dematerialization)?

Baada ya tarehe ya kusitishwa kwa uhifadhi wa hisa katika vyeti, vyeti vyote ambavyo havitakuwa vimesitishwa sasa vitaonyeshwa kama rekodi katika CDS kwa jina la mwenyehisa.

#### 6) Na iwapo nitahitaji hisa zangu zilizo katika akaunti za CDS?

Iwapo ungependa kutumia hisa zako kwa shughuli za uuzaji, utahitajika kufungua akaunti ya CDS na kufuata utaratibu wa thibitisho kupitia msajili wa hisa za KenGen, Image Registrars Limited, na kisha hisa zako zitahamishwa katika akaunti yako binafsi ya CDS.

#### 7) Ni lini tarehe ya kukomeshwa kwa uhifadhi wa hisa katika vyeti? (dematerialization date)?

Tarehe ya hisa za CDSC zilizokoma kuhifadhiwa katika vyeti (dematerialized securities) kwa kampuni zilizo katika soko la hisa ilitekelezwa kwa awamu tatu: Septemba 1, 2013, Oktoba 1, 2013 na Novemba 1, 2013 mtawalia.

## Shareholders Calendar

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Tarehe ya kusitishwa kwa uhifadhi wa hisa za KenGen katika vyeti ilikuwa Novemba 1, 2013. Vile vile, KenGen iliweka ilani katika magazeti kufahamisha umma kuhusu tarehe hiyo. Kwa sasa, tunahimiza wenyehisa ambao bado wana vyeti vya hisa kuwasiliana mara moja na wakala yeyote wa Hisa ili kupata usaidizi jinsi ya kusimamisha matumizi ya vyeti vya hisa zao (immobilization).

### 8) Nitafuatiaje hisa zangu?

CDSC itakutumia taarifa za kila mwezi iwapo akaunti yako ni ya shughuli nyingi, vinginevyo utapokea taarifa yako mara moja tu kwa mwaka. Hata hivyo, iwapo ungependa kukagua/kupakua/kuchapisha taarifa zako, unaweza kutembelea tovuti ya CDSC, [www.cdsckenya.com](http://www.cdsckenya.com). Pia unaweza kujiandikisha kupokea huduma za simu ya rununu kutoka kwa CDSC ambapo utapokea taarifa za punde kila mara kuna shughuli katika akaunti zako kama vile ununuzi ama uuzaji wa hisa. Huduma hizo zitatozwa bei ya chini ya Sh. 10.00 kwa kila ujumbe. Kujiandikisha, tuma neno 'register' kwa 22372 na ufuate maagizo.

### Maelezo ya Benki

Tunahimiza wenyehisa wote ambao wanamiliki vyeti vya hisa na ambao mgao wao wa faida unalipwa kupitia hundi kutoa maelezo ya akaunti zao za benki kwa kampuni ya hisa za Kampuni, Image Registrars Limited, Barclays Plaza Ghorofa ya Tano, Loita Street, Nairobi SLP 9287, 00100 GPO, Nairobi Simu: 020-2212065/2230330, 0770052116, 0735565666, 0724699667, baruapepe: [info@image.co.ke](mailto:info@image.co.ke) kutuwezesha siku zijazo kutuma mgao wa faida moja kwa moja kwa akaunti zao.

Pia tunahimiza wenyehisa wote ambao bado wana akaunti za CDSC na ambao mgao wao wa faida unalipwa kupitia hundi kutoa maelezo yao kwa maajenti wao wa hisa kutuwezesha siku zijazo kutuma mgao wao wa faida moja kwa moja hadi akaunti zao.

### Mgao wa faida usiodaiwa

Pamoja na Sheria ya Vifaa vya Kifedha visivyodaiwa ya 2011, tunahimiza Wenyehisa ambao hawajadai mgao wao wa faida kufanya hivyo mara moja kuepusha mgao huo kusalimishwa kwa shirika la Unclaimed Assets Authority.

Maswali kuhusu mgao wa faida usiodaiwa yanaweza kuwasilishwa kwa afisi ya Hisa, Stima Plaza, Kolobot Road, Parklands, Nairobi SLP 47936-00100 Nairobi, Simu: 020-3666961/4, 0711036961/4, baruapepe: [shares@kengen.co.ke](mailto:shares@kengen.co.ke) au afisi za msajili wa hisa za Kampuni Image Registrars Limited, Barclays Plaza Ghorofa ya Tano, Loita Street, Nairobi SLP 9287, 00100 GPO, Nairobi Simu: 020-2212065/2230330, 0770052116, 0735565666, 0724699667, baruapepe: [info@image.co.ke](mailto:info@image.co.ke)

# Contact Information

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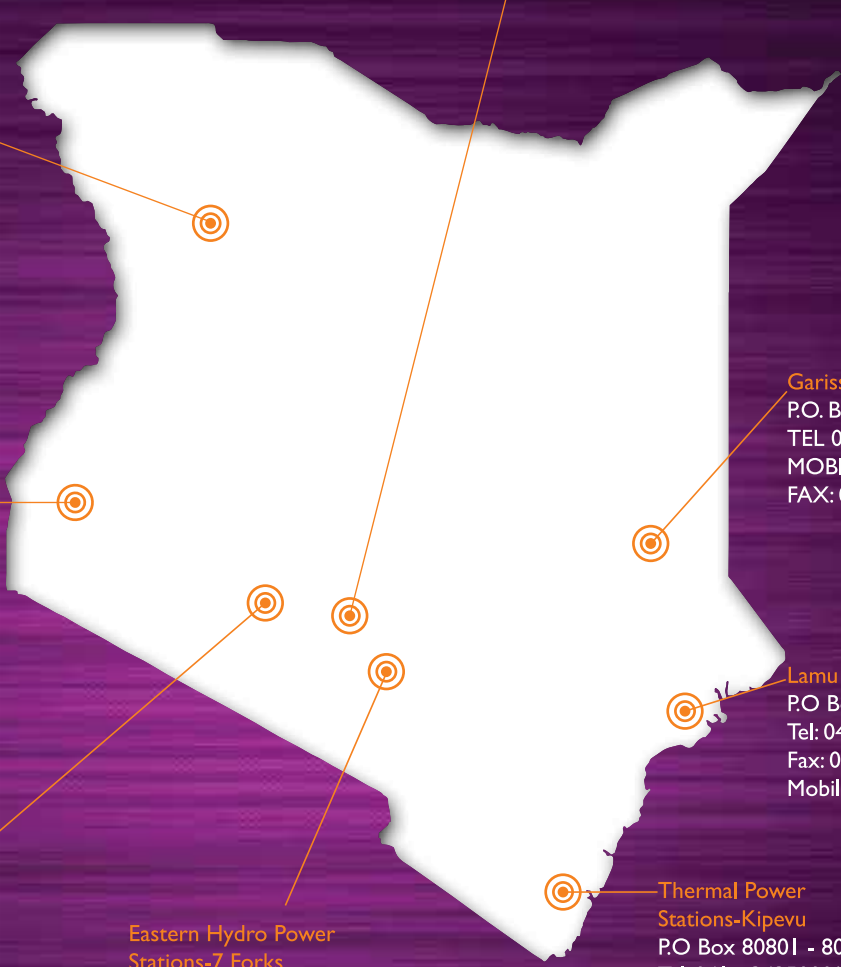
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